MODERN BUSINESS AND ITS METHODS

A MANUAL OF BUSINESS ORGANIZATION, MANAGEMENT, AND OFFICE PROCEDURE FOR COMMERCIAL STUDENTS AND BUSINESS MEN

BY

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PLAN AND SCOPE OF THE BOOK

This book has been written for use primarily in day and evening commercial schools. It is not intended for the veriest beginners, but for students from fifteen years upwards. If such students apply themselves intelligently and conscientiously, they will find in the book a means of adequate preparation for the examinations in Business Knowledge and in Theory and Practice of Commerce of the Royal Society of Arts, the Lancashire and Cheshire Union of Institutes, and similar bodies. Most of the test questions provided have been selected—sometimes with slight alteration—from papers set by examining authorities.

The newer requirements of the examinations usually taken in commercial schools have been kept in view throughout. But so have many points of practical importance that some of the later syllabuses show a tendency to neglect. Students cannot afford to dispense with instruction in the practical execution of office work; nor should this side of their training be overlooked either by the examiner or by the text-book writer. Still, this book is not a manual of office procedure merely. It has a wider purpose, and views commercial training as more than practice in the writing out and filing of office forms, or tuition in the correct handling of cheques and bills. A feature of the book is that in places it dwells at length on matters of organization and management in businesses of different kinds. Some attempt it also makes to sketch out our commercial system as a whole, and to show the inter-connection of the many channels through which work-a-day energies surge or slacken in their ceaseless course.

Though an insight into the structure and the working of our commercial system may not make an invoice-writer or a ledger-keeper more efficient within the narrow routine of his duties, it will certainly give him an interest wider than

the confined circle of his daily occupation. It will enable him to perform some higher duty the more intelligently when the chance to do so comes his way; and it will prove a helpful preparation for him if he sets before his mind the promise of becoming an enlightened and enterprising business man. Intelligence and efficiency are not the least of the present-day needs of British commerce.

The conditions in commercial schools vary so much that no standard course of study can be prescribed for all. Some classes may meet for only one hour on one evening a week; others for an hour or more every day. Some may consist of students that have already acquired a fair knowledge of several of the subjects here presented. For others a good grounding may be the first necessity. That being so, it is not suggested that in all circumstances teachers should set their students to begin at Chapter I, and faithfully plod their way, page by page and chapter by chapter, to the end of the book. Nor is it suggested regarding this subject, or rather this collection of subjects, that the chapters need be studied always in consecutive order. The author has contrived to set his matter out as far as possible in groups of related parts, and in what he thinks to be a passable sequence for its varied contents. Nevertheless, it is left to each teacher's discretion to select the parts he considers most suited to the needs or objects of any particular class of students, and to take the subjects in any order that—so long as it is order and not confusion—will best serve to maintain interest in study, and ensure a sense of satisfaction at the close of the session's work.

To provide a rest half-way on the long journey here traced out, the book has been arranged in two divisions. These may be used as first and second courses of study, where conditions permit. Part I will serve as a separate shorter course, complete in itself, when a shorter course is desired. For convenience of reference, as well as to mark off successive steps and stages and so assist the learner in his progress, all the chapters are set out in numbered and headlined sections.

But here, again, the more difficult or less rudimentary sections may be passed over in the lower forms and left to be mastered later. Though the work is meant to be a school book and to meet examination requirements, it is, nevertheless written from a practical standpoint, and is intended to be of as much use for every-day business purposes as for examination study and class-room work.

Such a treatise as this cannot be said to deal with only one subject. A title like "Business Methods" or "Commercial Practice," if taken literally, would include Book-keeping, Arithmetic and Correspondence; perhaps Foreign Languages and Geography, too. But each of these subjects is commonly studied in a class conducted for its own special ends; and the Business Methods or Commercial Practice syllabus gathers in a variety of matters neglected or omitted by the others. Further, the book will not be expected to exhaust the subjects it takes up. The student, after working through such a course as this, has a choice of two main routes in continuing his pursuit of commercial knowledge; and he may follow first one and then the other, exploring their by-ways at his will. On the one hand, he may turn to English law in its bearings on commercial operations; on the other to economic theory and the history of the industrial development of the modern world. The advancing and specializing scholar must then take as his guides, text-books that cover more fully than this one does particular areas of Mercantile Law and of Economics.

The author's fullest thanks are unreservedly accorded to Mr. Alfred Nixon, F.C.A., F.S.A.A., F.C.I.S. From him came the conception of the book at first, and without his suggestion, encouragement, and ever-ready help as it progressed, the work would, in all likelihood, never have reached the printer's hands

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MODERN BUSINESS AND ITS METHODS

CHAPTER I

THE COMMERCIAL LETTER

1. A Model Letter.

4 PUBLICITY BUILDINGS,
LUDGATE STREET,
LONDON, E.C 4,
18*th Sep*, 19...

Messrs. Duke & Oswald,
5 *Sylvan Avenue,*
Manchester.

Dear Sirs,

We thank you for your letter of yesterday giving particulars of the spaces you require in November and December publications. These instructions shall receive our careful attention.

For your future guidance will you please note that the " Daily Sketch " and the " Daily Mirror " do not sell space by the inch, but by the section of the page?

On the 21*st ult. we sent you notification of an increase of £*20 *the page in the price of the " New Pictorial." We shall be glad to learn if you agree to pay this increase, which comes into force on the* 1*st prox.*

Yours faithfully,
For the Modern Advertising Agency,
A. B.

2. Arrangement of the Parts.

(1) *The Margin.* Commercial letters should be written with a fairly wide margin on the left-hand side, and a narrow margin on the right. All lines, except those purposely indented, must begin at exactly the same distance from the

1—(1737)

edge of the letter-paper. Their beginnings should form a clean, straight line running parallel to the upright edges of the page. On the right, the ends of the lines are more difficult to regulate; but they should be made to fall, as nearly as possible, directly under each other, so that the narrow margin on this side shall not be too uneven. The breaking of words where the lines finish is a practice to be sparingly resorted to. On the other hand it is bad form to squeeze a word in at the line end, for that makes the letter unsightly.

(2) *The Heading* contains the address of the sender of the letter and the date of writing. These will usually take two or more lines which should be slanted off neatly, so that the last figure of the date just touches the right-hand margin. For class purposes, address and date are sufficient heading; but in business the name of the sender usually appears at the top of the letter-paper, together with his telegraphic address and telephone number. It is customary for the heading to be ready printed, the date only being left blank.

Example No. 1.

THE SUNSHINE MANUFACTURING COMPANY.

Telegrams: "*Sunray,*" *Sheffield.* *Telephones:* 1001 *and* 1002.	2 BRIGHT PLACE, MOUNT PLEASANT, SHEFFIELD. ----------------19---

Example No. 2.

TIMOTHY SHARPE, *Solicitor* *Commissioner for Oaths.*	3 PARCHMENT COURT, LIVERPOOL, ----------------19---

(3) *The Direction* of the letter consists of the name, street, town, etc., of the addressee or person to whom the letter is addressed. It makes use of one of the complimentary titles named in section 7 below. Beginning at the left-hand margin,

it slants off, line by line, in equal steps, as shown in the model at the head of this chapter.

(4) *The Opening Salutation.* This commences on the left-hand margin again, exactly underneath the first letter of the direction. In English letters, the titles used in the opening salutation are a different set from those of the direction, the most common being, *Sir, Dear Sirs, Gentlemen,* and *Madam.*

(5) *The Body* of the letter is the part that contains the message the letter is intended to convey. The other parts are like the framework of a carriage. This part is the load—the information, inquiry, demand, or complaint—that the carriage has to bear to its destination. Unless the message is a short one, it is well to divide the body of a letter into paragraphs, on the principle that each paragraph shall treat of a separate topic. Where there is much to be said on the one subject, a separate paragraph should be given to each distinct head or phase of the subject.

(6) *The Closing Salutation.* Just as by an opening salutation, we, as it were, bow ourselves into the reader's presence, so by a closing salutation, we bow ourselves out of audience. This part varies in degree of compliment with different writers, and in letters of different tone. It may be the shortest expression of civility or sincerity, as in

Yours truly, or *Yours faithfully,*

or, as in

Assuring you of our readiness to serve you at all times,
We are, Gentlemen,
Yours faithfully,

formality may run to greater length, and the manner become distinctly deferential.

(7) *The Signature.* The closing salutation, or its last line if there are more lines than one, should be begun at such distance from the right as will allow the signature to slope off and to finish at or near the right-hand margin. The

signature of a letter is important because of the authority it imparts to the message that stands above it.

3. **Kinds of Signature.** In commercial letters, we find the four forms shown below—

(1) *Signature of a Principal.*

Yours truly,
HUGHES & BROWN.

By the signature of a principal is meant that of a person who is writing for himself—not writing for someone else. It is the signature either of the sole proprietor of a business, or of a partner in the concern, when there are two or more proprietors. In signing letters of the business, any partner in the *firm* of Hughes & Brown would write the firm's name as above, and nothing more.

(2) *Signature of a person writing under instructions.*

Form 1.	**Form 2.**
For HUGHES & BROWN, A. DAVIES.	HUGHES & BROWN, *per* A. D.

Usually the initials of the clerk are enough. He may, however, write his name in full if it is desirable to do so, as in receipts for money or goods. In the first form the Latin word *pro* is sometimes used in place of " for "; but the meaning is the same. The word " per " in the second form means " through " or " by," in the sense of " by the hand of A. D."

(3) *Signature per procuration.*

per pro. HUGHES & BROWN,
A. DAVIES.

" Per pro." stands for the words *per procurationem,* and means that, by virtue of the position he holds in the business, the writer has been *entrusted with authority* to write the

letter on his own responsibility. A clerk receives instructions for each letter he pens; but a person in a position of responsibility, such as a manager or a cashier, uses his own judgment within the limits of the authority given him. In this form of signature, the writer's own name should always appear in full.

It may turn out that Mr. Davies in the example above has not the authority he claims, or has acted beyond the limits of the authority he does possess. In such case, by the law of principal and agent, this form of signature would not of itself cause Messrs. Hughes & Brown (the principals) to be bound by what their servant (the agent) had written. Nor, in the absence of authority, expressed or implied, would any form of signature bind them, except the principals' own. For that reason it rests with the receiver of the document to satisfy himself that the writer actually possesses the authority he professes to have. Where the matter is one of monetary importance, the receiver should make sure of the writer's position whenever there is cause for doubt.

(4) *Signature of an Officer of a Company or an Institution.*

For the ACME MANUFACTURING CO., LTD.,
THOS. POTTS,
Secretary.

Here, "company" means a joint-stock company. The nature of such a body, and the difference between it and a partnership, will be explained later. A hospital would be a good example of an institution. In this signature, the director, secretary, or other officer signing the letter should add his designation; and he may, of course, use "per pro." instead of "for," if he wishes to do so.

4. The Official Letter refers to the common form of letter of a Government department, *e.g.*, the Home Office, the Board of Trade, the Companies' Registration Office, and the Post Office. It is written on paper of foolscap size, and the direction is placed at the end, or at the bottom of the first page, instead of at the beginning of the letter. The clerk

or Secretary writing the communication usually does so in his own name. He begins in this way—

I am instructed by the Secretary of State for the Colonies to acknowledge your letter of ___________

and he ends thus—

I have the honour to be, Sir,
Your obedient Servant,
JOHN SMITH.

5. **The Memorandum.** Short and informal communications frequently take the following shape—

MEMORANDUM.

From	*To*	*23rd Oct., 19...*
THE GINGER BREAD SUPPLY CO.,		*Messrs. Brown & Binns,*
2 BAKER'S ALLEY,		*101 Scotland St.,*
MANCHESTER.		*Liverpool.*

We shall be much obliged if, when Mr. Binns is next in Manchester, he will call here to look at the new oven you supplied to us some three months ago.

R. S.

The memorandum dispenses with the opening and closing salutations, and it needs no formal signature. The writer may initial the note, or he may not.

6. **Reference to Dates.** If, in a letter dated the 13th Nov. 1927, you wish to refer—

to 1 April, 1926,	write	1st April, 1926.
„ 2 May, 1927	„	2nd May last.
„ 3 Oct., 1927	„	3rd ult., or ultimo.
„ 4 Nov., 1927	„	4th inst., or instant.
„ 12 Nov., 1927	„	yesterday.
„ 13 Nov., 1927	„	to-day.
„ 14 Nov., 1927	„	to-morrow.
„ 20 Dec., 1927	„	20th prox., or proximo.
„ 21 Jan., 1928	„	21st January next.
„ 22 Dec., 1928	„	22nd Dec., 1928.

7. Forms of Title. A few points are worth noting under this head—

(1) *Mr. and Esq.* Custom requires the use of "Esquire" when a letter is addressed to a man of some little pre-eminence, *e.g.*, a Justice of the Peace. The title is commonly used for a professional man, such as a barrister or a solicitor, who has no distinctive title, as has the doctor or professor. For fear of offending the susceptibilities of customers, retail tradesmen make extensive use of "Esq." in other cases. In most businesses, however, "Mr." or "Messrs." is the best title to use for all ordinary male persons.

(2) *John Brown, Esq., J.P.* The place of "J.P." is following "Esq."

(3) *John Brown, Junior, Esq., B.A.* "Junior," being part of the name, precedes the title "Esq." "B.A." follows it, as in (2) above.

(4) *The Paragon Motor Works, Limited.* Here the name is an impersonal one, and the title "Messrs." is therefore inappropriate. It is omitted, and the word "the" takes its place. *The John Brown Engineering Co., Ltd.*, is treated in the same way. In the salutation, *Dear Sirs* may be used, or, as an alternative, the letter may be addressed to the manager, secretary, or other official of the company.

(5) *Messrs. Brown & Gibson, Limited.* In this case, the better practice is to use the title, and the same holds good of such addresses as: *Messrs. John Brown, Limited.* "Messrs." is used in both of these because the names are personal ones, and because each indicates a business with two or more proprietors.

(6) *Sir John Browne, Bart., M.P.* "Sir," being a higher title than "Mr." or "Esq.," renders these useless; so, in *Sir John Browne & Sons, Ltd.*, the word "Messrs.", though applicable to the sons, would be derogatory to the dignity of "Sir," and is therefore omitted. "Right Honourable," used in addressing a Cabinet Minister, a Privy Councillor, or the son or daughter of a Duke, an Earl, and others, also causes "Esq." to be dropped.

(7) *An Earl* should be addressed as follows—

(a) Direction. *The Right Hon. the Earl of* ——
(b) Salutation. *My Lord*.
(c) Reference in the body of the letter. *On receipt of your Lordship's instructions* . . .

(8) *A Duke,* thus—

(a) Direction. *His Grace the Duke of* ——
(b) Salutation *My Lord Duke.*
(c) Reference in letter *I have the honour to inform your Grace* .

A fuller list of forms of address, many of which are seldom needed in business, will be found in Annandale's *Concise English Dictionary*, in Kelly's *Titled, Landed, and Official Classes*, and in similar books of reference.

8. Paper and Printing. It has already been mentioned that Government letters are usually written on foolscap paper. The common size for commercial letters, now that they are mostly typewritten, is quarto. But octavo note-paper is still much used. Quarto size is a fourth or quarter of a full-sized sheet of paper; octavo is an eighth; but the actual measurements of quarto or octavo are not always the same, for the full-sized sheets of printers' paper, out of which the letter paper is cut, are made in various standard sizes. The leaf of this book is folded from a crown sheet, and is known as "crown octavo." Foolscap is one of the smallest sheets the printers handle; but what we think of as foolscap in the office is only half the printers' size, for foolscap is always folded in two when supplied for commercial use.

Business letters are usually printed if the same matter has to be sent to many persons, *e.g.*, a circular to customers announcing the opening of a new branch or the appointment of a new representative. Other communications, such as orders for goods, advices of travellers' calls, letters enclosing remittances, inquiries about the characters of new employees, may be partly printed and partly written. Where the quantity required is not sufficient to justify recourse to the printing press, a circular may be turned out on one of several kinds

of machines supplied for office use. These machines produce multiple copies from handwritten or typewritten stencils, or from set-up type.

9. Arrangement of the subject-matter of a letter—

(1) In a reply, first acknowledge your correspondent's communication, quoting the date.

(2) Next, refer briefly to the subject of his letter.

Examples.

(a) *We have your letter of yesterday informing us of a shortage in delivery of the engineers' oilcans sent on the 15th inst. These goods were packed in the same box as . . .*

(b) *Replying to your suggestion of the 29th ult., we may say that we have gone carefully into the question of discounts, and have . . .*

(3) Deal with all of your correspondent's points, and in so doing, give a separate paragraph to each subject, or to each distinct part of the same subject.

(4) In a lengthy composition treating of several questions, give each separate question a heading as well as a paragraph to itself. The following skeleton letter from a business house to its traveller on the road, illustrates what is meant—

BOGGIE & CO.'S ORDER.—*The official order was received this morning. We notice they . . .*

HARDUP & STONYBROKE'S ACCOUNT.—*You had better call on these people. Find out, if you can, whether . . .*

YOUR IRISH JOURNEY—*We have a special enquiry from* ROBERTSON, *of* BELFAST. *Could you arrange to go there next week?*

(5) Subjects turn up sometimes about which there is likely to be protracted correspondence. Such are actions at law, claims for damages covered by insurance, negotiations for leases of premises, and so on. It is a good plan in such cases to head your letter with the subject in question. This would be done also in answering a letter received with such a heading, as the following from a solicitor—

Dear Sir,

JOSIAH UNDERWOOD, *Deceased.*

Herewith I send you, for your inspection, probate of the will o' the above. My clients, the executors, will be glad to learn

(e) When a table of particulars or a lengthy extract is given in the body of a letter, the table or the extract should be indented as in the examples following.

Example No. 1.

201 GREEN STREET,
MANCHESTER,
25th May, 19...

The National Bank of South Africa, Ltd.,
Circus Place,
London Wall, E.C.2.

Dear Sirs,

With this we are sending you four drafts on South Africa, as follow—

No.	*Amount.*	*Payable.*	*Drawee.*	*Town.*
1321	*£201 10 0*	*on demand*	*Potgieter*	*Bloemfontein*
22	*72 0 0*	*do.*	*Campbell*	*Cape Town*
23	*50 2 6*	*do.*	*du Plessis*	*Maritzburg*
24	*17 3 6*	*do.*	*Steiger*	*Vryheid*

We shall be obliged if you will send these bills out for collection, the proceeds to be remitted to us here. The documents attached in each case are to be given up on payment only.

Yours faithfully,
per pro. Lyttleton & Wood,
Jno. E. Hall.

Example No. 2.

CIRCUS PLACE,
LONDON WALL,
LONDON, E.C.2.
30th Aug., 19..

Messrs. Lyttleton & Wood,
Manchester.

Dear Sirs,

B/collection £17 3s. 6d., F. W. Steiger,
——— *received 26th May, 19..* ———

With reference to the above-mentioned bill, we have to inform you that our Vryheid manager, under date 17th July, advises us as follows—

" Payment has been refused by the drawee, who says that

the goods were ordered for delivery here not later than the end of May, and that the delay has rendered them useless to him. The two parcels are lying at the Vryheid post office, and the post office is writing direct to the drawers about the disposal of the goods. I shall be glad to learn what you wish to be done with the bill."

Please instruct us.

Yours faithfully,
For the National Bank of South Africa, Limited,
A. Blank,
Manager.

CHAPTER II

SOME MINOR MATTERS

1. **Things Small and Great.** Small things are often of great importance, like the legendary horse-shoe nail, for want of which a battle was lost, and a kingdom, too. The importance holds good of small points of form and procedure in the conduct of business. To express scorn for an excessive observance of formality, the term "red tape" is used, suggestive of a sheaf of letters all written to remedy some paltry irregularity, and of the yard or so of coloured tying material that binds the sheaf together. Yet, it is only when exercised in regard to wrong ends that exacting carefulness or methodicalness becomes an object of contempt; or when it deteriorates into a finicking fussiness about trifles in themselves and for no end at all.

Great things are made up of small things. The huge turnover of many a prosperous business comprises innumerable small transactions. The good name and reputation of many a commercial house rests upon the smart, obliging, and satisfying thoroughness with which every little move is carried out in supplying the wants of every customer of the wide connection. A few examples of how efficiency tells in the struggle for success may not be out of place.

(1) The typed letter is easier than the manuscript one for a customer to read; and the letter that is clearly expressed and nicely worded is easy to understand. In the old days, an establishment was judged by the manners of its personal representatives far more than it is now. In these days its *letters* are its means of greatest influence and possibly its chief business-getters. Letters may be written so lucidly and so tastefully as to make perusal of them a pleasure, and to induce unconsciously in the recipient a preference for the business house from which such communications emanate. Other things being equal, the trader that sends out letters indistinct

in the writing, confused in the meaning, or awkward in expression, is sure to suffer at the hands of competitors whose writing and meaning are always plain, and whose expression is apt and choice at every turn.

(2) The ability to write in simple and pleasing language will not of itself, however, secure high success in the pursuit of commerce—not even in the present times when writing is so indispensable. Excellence in our correspondence will not compensate for poorness in our wares. A dazzling and hollow trumpery, either in goods or in service, will never make for permanent prosperity. Let our qualities shine wherever possible; but, whether they show in little things or in big, in what we sell or in how we sell, they ought to be solid and enduring.

(3) Promptitude in the execution of orders and in the answering of inquiries is another essential of success. It implies an established and smooth-running organization. In works and in office we need method, and we need the application of sense and care to the working of our methods. There must be division of labour—one person doing one kind of work, and not every person doing all kinds. In the office, records of transactions, letters on different subjects, documents of different kinds, must be sorted out, classified and kept in order. Whenever any item of information is wanted, we should be able to put a finger on it with the least possible expenditure of time and trouble. And in this connection, some of the cheapest types of office appliances will be likely to give the most trouble, and consequently turn out to be the dearest in the end.

The next chapter will treat of system in the arranging and keeping of business documents. In this chapter, attention is asked to a few of the minor affairs of office work. Small matters some of them are, no doubt; but not so void of value that every clerk should not always be ready to spare a little scrupulous attention for them. Not the least of the benefits of giving that attention will be the reaction on his own character. It will lead him to neatness and orderliness as

a habit, and will make him painstaking and thorough with all that passes through his hands.

2. Record of Incoming Letters. As incoming letters are opened, they should be sorted into batches, a batch for each separate department of the business. Next, they should be listed, either all together in one book, as in the illustration below, or each batch on a separate sheet duplicated by

LETTERS RECEIVED BOOK.

Consecutive No.	Name and Town		Department	Signed for	
				Number	By
	16th Nov., 19...				
11235	GREEN,	Bury	Hosiery	—	
36	BROWN & BELL,	Oxford	,,	—	—
37	LITTLEMORE,	London	,,	3	A. B
38	SYKES,	Leeds	Dresses	1	C. D.
39	MORTON,	Glasgow	Cashier	—	—
11240	EARNSHAW,	Halifax	,,	2	E. F.
41	WILLS,	Bristol	Forwarding	1	G. H.

carbon leaf. They are then handed to the departments, together with the duplicates of the lists (where these have been made). Care should be taken to get the original list initialed by the receiver of the letters at the time each batch is handed over.

After listing, and before distribution to the departments, each letter should be marked with the date of receipt. The letters may or may not also be numbered consecutively; and, if they are, the entries in the Letters Received Book should be given corresponding numbers. For marking the letters, a rubber stamp with blank spaces, as shown in the illustration above, may be used. In these spaces would be inserted the further

No. 11235

*Date Received*_______________

,, Answered _______________

*Answered by*_______________

particulars indicated. The use of serial numbering and dating stamps for this work would be found to save much time.

The Letters Received Book is kept for the purpose of tracing letters that have come in, and of showing how they have been disposed of. When any required letter is found by means of this book, the consecutive number identifies it beyond question, and the other particulars marked upon it show who has dealt with it, and when.

3. **Record of Outgoing Letters.** A Postage Book, or Letters Despatched Book, should be kept to record all letters going out. The purposes of this book are—

(1) To show whether or not any particular letter has been posted, and how, when, and where.

(2) By being balanced every morning, to keep a check on the postage stamps used the day before.

A form like the following is suggested—

POSTAGE BOOK.

Received			Name and Town	Paid			Posted			Remarks
							Where	When	By	
£	s.	d.	*6th Nov., 19..*	£	s.	d.				
5	–	–	CASH	–	–	–				
			HIGGINS, Bolton	–	1	3	Green St.	9.45	A. B.	Telegram
			HALL, Manchester	–	–	1	—	—	—	—
			GEORGE, "	–	–	1½	—	—	—	—
			MILLS, Leicester	–	–	2	—	—	—	
			MOORE, Birmingham	–	–	2	—	—	—	
			YOUNG, Glasgow	–	–	4	Bag	12.30	C. D.	—
			SMITH, THOS., London	–	–	4½	Green St.	3.30	A. B.	Registered
			ROBERTS & Co., Cardiff	–	–	6	"	3.30	A. B.	Parcel
			&c.							
			Total for the day	3	18	6				
			Balance carried down	1	1	6				
£5	–	–		£5	–	–				
			7 Nov., 19..							
1	1	6	*Balance brought down*							
3	18	6	*Cash*							

4. **The Copying of Documents.** Copies must be kept of all outward letters, of invoices and of receipts posted to customers, of orders sent out for goods, quotations given, and the like. A business man could not conduct his dealings satisfactorily unless he were able to ascertain at any time just what he said to a given correspondent on a previous occasion, what was the exact price he quoted some weeks ago, or what the particular terms named in the order he placed six months back for goods that are now just coming in. In modern business, it would never do laboriously to copy out each document word for word by hand. The chief means we have of making copies are—

(1) *The Copying Press.* For the old and familiar method of press-copying, we write or type the letter in special ink, and a Copy Letter Book is used to retain the copies. A leaf of the book is damped; and, with the letter inserted so that the back of the leaf is against the writing of the letter, the book is pressed in the copying press. The result is that the surface of the ink is licked up by the damp leaf and shows legibly through the semi-transparent paper of which the book is made.

(2) *The Rotary Copier.* This is a newer means of obtaining the same kind of copy as that given by the flat copying press. Here rollers are the principal feature of the machine. The copy is made by causing the letter and a damped sheet of paper to be pressed together in passing between the rollers.

(3) *Carbon Leaf in Books.* It is easy to make the duplicate and the original at the same time by using the carbonized paper, commonly known as "black leaf"; but the duplicate is not always the cleanest of copies, nor the original the most presentable of business documents. This is the process that the shopman adopts when at one writing he makes out from his counter check-book a bill to give to his customer, and a copy to be kept for his employer's needs.

(4) *The Typewriter and Carbon Leaf.* Where the letter is to be typewritten, the simplest and quickest way to obtain a copy is to make a carbon duplicate on the typing machine.

Two sheets of typing paper, and a good thin carbon-leaf between, are all that is needed, the letter and the duplicate being thrown off at one operation. By using very thin paper, several copies may be obtained with only one typing.

5. A Reply Reference, such as that shown below, is frequently put on a letter to indicate the place where the copy of the letter is kept. The place in this instance may be either Copy Letter Book No. 8, page 241; or Vertical File No. 8, folder 241. (See Chapter III, sec. 5.)

In your reply, please quote 8/241

6. Multiplex Copies of business documents for circularizing customers, or for other purposes, may be obtained by one of the following processes—

(1) *Gelatine Process.* This is a primitive method, in which the matter to be copied is first written in concentrated ink on glazed paper. The writing is then transferred by hand-roller pressure to a slab of gelatine or similar substance, kept in a shallow metal tray. A limited number of copies may be taken off the impression on the slab, if by means of the hand-roller first one sheet of paper is pressed against the slab, then a second, third, fourth, and so on. After a score or two of copies have been made, the ink on the slab gives out.

(2) *Stencil Process.* A stencil is a sheet in which the letters are cut through the substance of the sheet. Using paper of a special nature, the clerk makes the stencil, by hand with a hard style, or by typewriter, after moving the ribbon from the striking point of the type-bars. If the stencil is then fixed in a flat frame and an inked roller passed over it, the ink will be pressed through the perforations that were made in cutting the letters, and the forms of the letters will be traced on the sheet of clean paper placed underneath. (See Fig. 1 above and Fig. 2, p. 18.)

Fig. 1. Flat Frame Duplicator.

An alternative method is to fix the stencil in a rotary machine

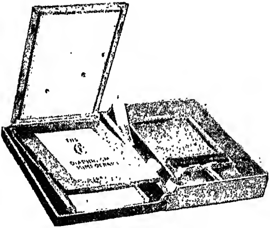


Fig. 2. Diaphragm Mimeograph.

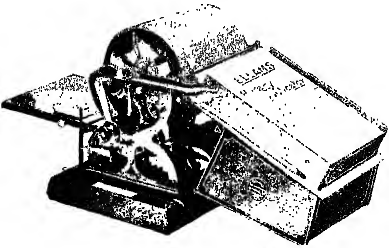


Fig. 3. Rotary Duplicator.

like that in Fig. 3, where a hollow drum takes the place of the flat printing-frame. The inking roller works inside the drum. It presses the ink outwards through the stencil laid over the

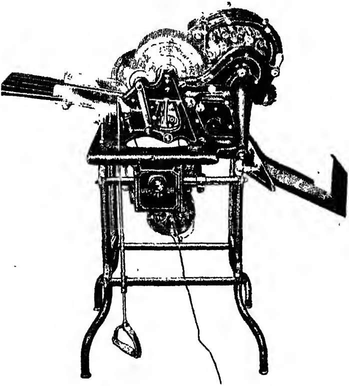


Fig. 4. THE RONEOTYPE.

drum, and prints the letter as by a turn of the handle each sheet of letter paper is passed quickly, under pressure, between the drum and another roller outside.

(3) *Type Process.* The latest multiplex copiers are machines

in which type, of the character used on the ordinary typewriter, is set up in a flat printing frame. The copies are impressed from the type through a printing ribbon, like a typewriter ribbon, but very much broader, which is laid over

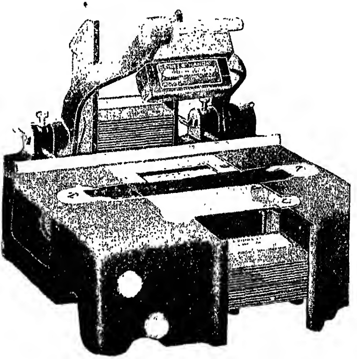


Fig. 5. The Addressograph—Printing Parts only

the set-up type; and they look very similar to letters typed in the ordinary way. In the newest variety of this kind of machine (see Fig. 4), the printing frame takes the form of a cylinder into the outside of which the type is fixed as required.

(4) *Lithography and Letterpress Printing.* For large quantities, these processes are resorted to, and the copies required are procured to order from printers skilled in all the technicalities of their trade.

7. Machines for Office Work. Mechanical devices are coming more and more to the fore as labour and time savers in office work. With the typewriter, everybody is now familiar. There are machines for affixing postage or insurance stamps, keeping record of the number used. And we have just described in their leading features, machines for making multiplex copies of letters and other documents.

For *addressing circulars* or catalogues, there are several makes of machine on the market. A stencil or an embossed plate is made of each new address to be added to the address-list. The plates or stencils, when not in use, are kept in trays, and standing on edge arranged in strict alphabetical order, on the principle of the Card Index. (See Chapter IV.) The addressing machine automatically takes the plates from a tray fixed on the machine, prints the address of each on to an envelope or wrapper fed into the machine, and puts each plate back in order into another tray placed underneath to receive it, as shown in Fig. 5. A thousand or more addresses an hour can easily be printed in this way by one person. The machine may be driven by treadle or by the electric current supplied to the business premises for lighting purposes. Some machines are so arranged that an index card of every address plate is visible at the printing point, thus permitting the addressing or the skipping of names as required.

Under the head of office machinery, we should not omit to mention the *adding machine* used by banks, insurance offices, and important business houses where much listing and adding of figures are necessary. The machine is operated by means of keys like those of a typewriter or a shopkeeper's cash register. It types long columns of figures fed into it by depression of the keys, adds them at the same time by an internal mechanism of cog-wheels; and on the moving of a

lever by the operator, it delivers the total, also typed. Then there is a small adding device, which is attached to the ordinary typewriter and is used for invoicing purposes. And there are calculating machines, such as the *Comptometer*, Fig. 6, also worked by keys and used in multiplication as well as addition. These are machines that will come into wider use it as becomes realized what time and mental drudgery they can be made

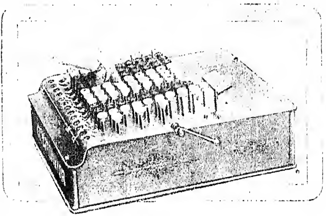


Fig. 6. THE COMPTOMETER.

to save, and how much of the erring human element they eliminate.

8. Post Office Services. For the various services of the Post Office, and the many regulations regarding letters, money and postal orders, parcels and the " cash on delivery " system, telegrams, and the telephone, the reader is referred to the Post Office Guide, new editions of which are published at frequent intervals. The space at our disposal can be used to better purpose than in setting out voluminous details that are readily accessible elsewhere.

Foreign and colonial telegrams and the manipulation of code messages are dealt with in Chapter XV, in connection

with foreign trade. A few hints on the writing of plain language telegrams will make an appropriate close to this chapter of minor points.

9. Rules for Writing Telegrams. (1) The first essential is to make the meaning perfectly clear.

(2) The next is to use as few words as possible; but clearness must never be sacrificed to brevity. A misunderstanding, by causing delay, will defeat the object of sending a telegram; which is to save time.

(3) Arrange the words of the telegram so that the most service can be got out of each word.

Examples.

(a) Instead of *Daimler car must be here latest Tuesday morning or cancel* (10 words), say, *Cancel Daimler unless here Tuesday morning* (6 words), where the word *cancel* is so placed as to yield the utmost of effectiveness.

(b) Instead of *Will come to-morrow with samples* (5 words), say, *Bringing samples to-morrow* (3 words), where the one word *bringing* is used to convey as much meaning as the three *will come with.*

(4) If doing so can be avoided, do not repeat the sense, even partially, either by using the same word, or by using another of similar meaning.

Examples.

(a) Instead of *Offer firm twelve noon to-morrow* (5 words), write *Offer till noon to-morrow* (4 words).

(b) Instead of *Goods ordered sold out, can execute order in two days' time* (11 words), write *Goods ordered sold out, can supply in two days,* or *Can supply Wednesday next* (8 words). In the original, the words *order* and *time* are both unnecessary repetitions of ideas previously expressed.

(5) Rather than figures or abbreviations, write full words. For example—

10 cases @ 54/6 F O R Glasgow,

should be turned into

Ten cases fifty-four and six Glasgow station.

The second, as words go in telegrams, is one word longer

than the first; but it is very much less liable to error in the process of transmission.

(6) Compound words, such as mother-in-law, forty-seven, and Anglo-American, are each charged as a single word. So are names of towns and villages like King's Lynn and Bovey Tracey.

(7) Grammatical form is not necessary in telegrams; and punctuation marks, quotation marks, apostrophes, and hyphens would each be charged as a word if they had to be telegraphed.

(8) Use telegraphic addresses wherever they exist.

(9) Confirm the telegram by letter the same day.

CHAPTER III

ON FILES AND FILING

1. Evolution of the File. Possibly the most primitive of filing instruments is the spike file. At any rate, it is the rudest form of filing apparatus now in use. But even the spike file shows a stage in the development of filing devices. Prompted probably by accident with the dangerous point, some bygone user turned the straight sharp end into a hook, and hung his file up out of harm's way. A second step was taken in the progress of filing when the point or spike was made distinct from the hook, and was bent at right angles to the wall; that is, in the same direction as the nail from which the file was suspended. Papers could then be put on the file without its being taken off its nail, and—what was no doubt another advantage—the papers would hang more or less flat against the wall. The third step in this line of development was to cover the contents with a large flap or apron, so as to keep the precious documents in some degree, if only a small degree, cleaner and tidier than before. Files like these are still in general use; but they are too dirty and slovenly for methodical work. With such appliances, it is not possible to keep papers either straight or secure; and to arrange them carefully in any of the ways explained hereafter is out of the question. Efficiency in filing has to be sought by other means.

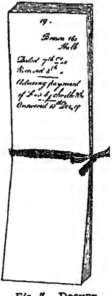


Fig. 7. DOCKET.

Another primitive method was to fold the letter lengthwise,

docket its date and the sender's name outside, place the letter on the top of others previously received and similarly folded, and tie the bundle round the middle with a piece of tape or string. Here, too, some unknown genius must have been at work. When his file took on unwieldly proportions, he conceived the plan of separating the bundle into several lots. For we find a system doing duty yet in which a separate pile is kept for each letter of the alphabet, and each document is placed in the pile that bears the initial of the sender. To

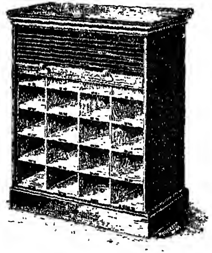


Fig. 8. THE PIGEON-HOLE FILE.

keep so many piles in good order, a *pigeon-hole* for each is necessary; so there came into use a wooden frame with twenty-four divisions, as in Fig. 8. This method is capable of yielding a very considerable degree of orderliness and thoroughness. Nevertheless, *the Pigeon-hole and Docket System*, as it is called, has been superseded by newer methods that permit the contents of the file to be arranged with much less labour, and referred to with far greater ease.

2. Pocket Files and Box Files. The pocket file is one of the simpler of recent forms, and, being closed, it protects what it holds from dust and damage. The file contains A, B, C, pocket divisions that look like the bellows of a concertina, and are usually fastened into a strong back like the binding covers of a book. Letters are placed in the pockets according to initials, and without being folded or fastened. The file stands on a shelf, desk, or book-rack. For documents of

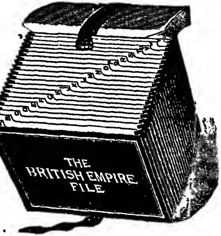


Fig. 9. File with Pocket Divisions.

different kinds, as letters, quotations, orders, invoices, statements, and receipts, separate files may be used.

The box file also offers the advantage of being closed, keeping its contents clean and protected; and it, too, may stand on edge on a shelf or elsewhere. But when used in a set, each unit holding documents of one kind, these files may lie on their sides and take the form of drawers, the set being made up as a small cabinet. The papers in a file like this are usually held in place by a strong spring inside the box

or drawer. If, amongst the contents, an A, B, C index of loose sheets were introduced, almost the same type as the flat file described in section 4 below would be obtained.

3. **Principles of Systematic Filing.** Filing may be defined as—

The putting away of letters and other documents to protect them from damage and to keep them in order for future reference.

The two aims to be kept in view are (*a*) *preservation* of the papers; (*b*) *facility of reference* to them. The nature of business

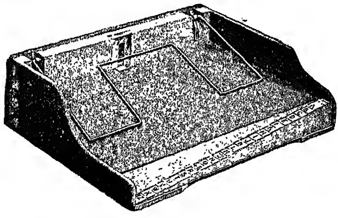


Fig. 10. A Drawer File.

documents offers a little choice in the manner of their arrangement, and, as a guiding principle, any of the following orders may be taken—

(*a*) Alphabetical, according to names or subjects;

(*b*) Chronological, *i.e.*, the order of the dates of the documents;

(*c*) Numerical, following distinctive numbers given to the papers on some preconceived plan.

But two of these principles, or even all three, may be combined.

(1) *Alphabetical Order*. By this is meant *strict* A, B, C arrangement, exactly like that of the words in a dictionary. Letters received and copies of those sent in answer are filed away together. The letters received are filed according to the names of the persons who sent them; the copies of letters despatched, according to the names of the persons written to. The letters or copies, are arranged first by the initials of the surnames; then, where initials are the same, by the second letters of the surnames. If the second letters are the same, the third is taken as the guide, then the fourth, and so on. Should the surnames be wholly alike, we go by the correspondents' other-names; and, when these, too, happen to be identical, by the towns in which the correspondents live. This arrangement gives an exact place to each correspondent's letters, and so makes reference to them easier and quicker. As an illustration, the following twelve names are arranged in strict alphabetical order—

1. Bacon	5. Binns	9. Bowen
2. Balfour	6. Black	10. Briggs
3. Ball	7. Blackwood	11. Brown
4. Bennett	8. Bompas	12 Burton

A letter from BROWN & Co. would take its place in front of the one from BROWN & SONS. GEORGE BRIGGS, of LONDON, would come before GEORGE BRIGGS, of MANCHESTER; and FRANCIS BACON, of CARLISLE, before the same name from COVENTRY.

It should be noticed that the POPULAR SUPPLY CO.'s correspondence is to be filed under P, that letter being the initial of the most distinctive word in the name. For the same reason, THE POSTMASTER, NEWCASTLE-ON-TYNE, should go under N; and THE MANAGER, THE GAS WORKS, OLDHAM, under O. LLOYDS BANK, LIMITED, BIRMINGHAM, had better go under L. It would be placed in front of LLOYDS BANK, LIMITED, DERBY; and a letter from the SHEFFIELD branch of the same bank would, of course, come last of the three.

(2) *Numerical Order*. Take invoices inwards, *i.e.*, those received for goods bought. As the invoices come to hand,

and are passed (see Chapter V, under heads 1 and 4), it is usual for the names, dates and amounts to be entered in a Purchases Book, one invoice to one line of the book. The invoices themselves are preserved, so that we may look them up when we want any particulars not entered in the Purchases Book about the goods or prices. The order of the entries in the Purchases Book is a permanent one; therefore, an excellent plan to follow in the keeping of the invoices is to file them away in the same order as that of the entries. Each page of the Purchases Book will have a printed consecutive number, and the lines of the page should be given printed numbers also, say 1 to 40, down the left-hand margin of the page. In red ink or in blue lead-pencil, the invoices are marked with the *page and line* of each entry. Thus, the markings 124/1, 124/2, 124/3 . . . 124/40, refer to entries on page 124, and on the lines 1, 2, 3, to 40, respectively.

This method of filing is just as applicable to the typed duplicates kept of invoices outwards, *i.e.*, invoices sent to customers for goods sold. It is suitable also for the duplicates of credit notes given to customers, and of debit notes sent to creditors. For explanation of these documents, see under head 5, in Chapter V.

The receipts obtained for sums paid out may be filed in a similar way. The number marked on each filed receipt will appear in the Cash Book against the entry of the corresponding payment. But, in filing receipts, it will be found more convenient to ignore the page numbers, also to insert the receipt numbers by hand on the lines in the Cash Book where they are required. The numbers may begin at 1, and run right on to 10,000. When this last number is reached, the series can be commenced anew. Commercial papers of other kinds may be filed in the same way as receipts, *e.g.*, transfer deeds lodged with joint-stock companies in respect of dealings in the companies' shares.

(3) *Chronological Order*. Such documents as periodical reports, daily, weekly, or monthly returns, would probably be filed simply in the order of their dates, the latest on the

top. If the return consisted of a list of names, these names might run in A, B, C order, and so give, in the one set of documents, a combination of chronological and alphabetical arrangements. Further, when business letters are being filed alphabetically, all those from and to the same person will automatically come together. These should then be put into order of date amongst themselves.

(4) *Comparing Methods* (1) *and* (2), we find that in the alphabetical order, later letters are from time to time inserted according to initials, here, there, and everywhere, amongst the earlier contents of the file. On the other hand, the sequence of the documents in the numerical arrangement is permanent from the start. The earlier contents remain undisturbed; additions simply follow on. Of the two files about to be described, the flat file is the more suitable for the permanent order; the vertical file for the changing one. In the flat file the contents are held in place by a fastening, which causes little inconvenience, and is perhaps an advantage where the order of the papers never alters. In the vertical file, the contents are free, have no fastening whatever—a feature that renders the insertion or the withdrawal of any document an operation of the utmost ease.

A variation of the numerical method, adapted to letters on the vertical file, will be explained when the vertical file is described.

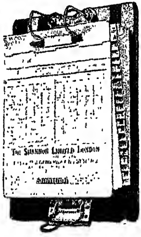


Fig. 11. THE "SHANNON" FILE.

4. The Flat File. In this file the letters or other documents are placed in a flat or horizontal position, one on the top

of another to a thickness of about three inches. The characteristics of the file are—

(1) *An Alphabetical Index,* consisting of loose, stiff sheets distributed throughout the file. Between these index sheets, the contents are arranged in strict alphabetical or dictionary order.

(2) *A Spring Fastening,* commonly a double arch of thin metal tube, to which the letters are attached through perforations made in them with a punch. One form of the punch is shown at the foot of the file in Fig. 11.

(3) *The Form of the File.* It is made—

(*a*) To hang on the wall, as illustrated in Fig. 11;
(*b*) To stand on end on a shelf, like a book;
(*c*) In the shape of a drawer that is part of a cabinet consisting of a number of similar drawer-files, as in Fig. 12.

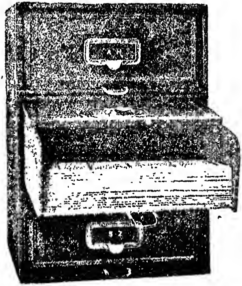


Fig. 12. HORIZONTAL FILING CABINET.

(4) *Transfer or Binding Cases,* of the same capacity as the file itself. When a file is full, its contents are removed in

undisturbed order to one of these transfer cases, in which they are held together by a fastening more or less similar to that of the file proper.

5. The Vertical File is so called to distinguish it from the horizontal or flat file, and because of the upright position in which its contents are held. The file consists of—

(1) *A Drawer* or box, rather long and almost as deep as wide, say 24 in. by 12 in. by 10 in. inside measurements.

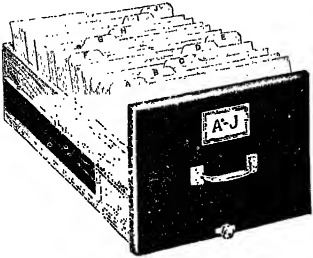


Fig. 13. A VERTICAL FILE.

In this the letters or other contents are made to stand on edge—usually on the left-hand edge and face foremost—without fastening of any kind.

(2) *Guide Cards* marked alphabetically or numerically. These serve in whole or part as the index to the file, the letters being arranged between them, also alphabetically or numerically, in the folders described below. The guide cards are held in place by a rod running from front to back of the drawer, and through the eyelet at the base of each guide card.

(3) *Folders.* A separate folder is provided for the letters of each regular correspondent, or, perhaps, for a particular

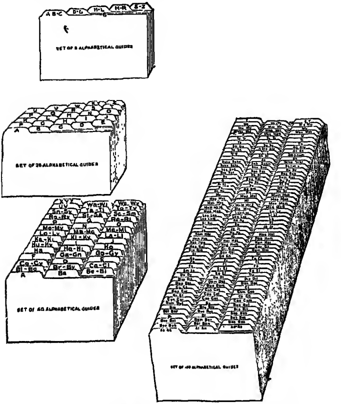


Fig. 14. Guide Cards—Showing Sub-division of Initials.

subject about which correspondence is carried on with several persons. The folder (see Fig. 15), serves to keep together all the letters from and to each correspondent, or all the letters on the special subject for which it is provided. The folder has no fastening so that the whole of any person's

correspondence, when required for reference, can be withdrawn simply by lifting his folder out of the file. On the top edge of the folder appears the name of the correspondent, together with the number, if any, allotted to him.

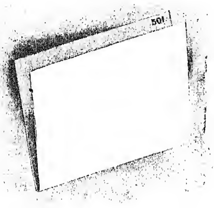


Fig. 15. FOLDER.

(4) *Cabinets.* Each single file is usually a drawer in a cabinet that consists of several similar drawers. These cabinets are made with detachable sides, so that an additional set of drawers may be added when increased filing accommodation becomes necessary.

(5) *Transfer Cases.* When a file becomes inconveniently full, the contents, or some of them, are taken out and put in a transfer case. The transfer case may be a small cardboard box, intended to take only a portion of the letters in a file; or it may be a wooden box of the same size as the file and taking the whole of the contents just as they stand.

(6) *The Advantages of the Vertical File* over the flat file are—

(*a*) That its capacity, and therefore its range of reference, is many times greater than that of the flat file.

(b) That there is no fastening to tear the papers on the file, and that no time is taken up in releasing a document before it can be removed.

(c) That there is no turning over of letters that have been

Globe-Wernicke

Fig. 16. VERTICAL FILING CABINET.

filed on the top of the one required. The letters do not rest on one another, but stand upright one behind another, the upper edges of all being exposed to view and to touch.

(7) *Numerical Arrangement of the Vertical File.* In place of the simpler alphabetical arrangement of the guide cards and folders, a numerical one may be adopted. Then the folders are numbered consecutively, and a permanent number is allotted to each correspondent or to each subject, as the case may be. The guide cards also take numbers instead of alphabetical letters. They are commonly marked 10, 20, 30, 40, 50, and so on, and ten folders are placed in front of each guide card. A separate file, arranged alphabetically and

without folders, may be kept for letters from and to persons that are not regular correspondents and therefore have no

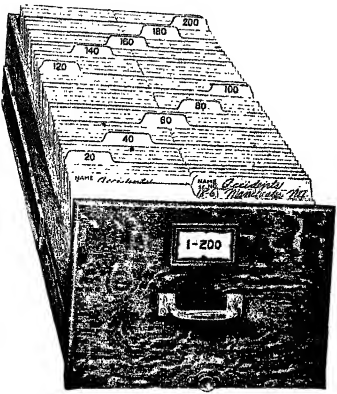


Fig. 17.
VERTICAL FILE, NUMERICALLY ARRANGED.

numbers allotted to them. When arranged on the alphabetical plan, a file contains its own index; but with the numerical plan a separate alphabetical index must be provided. The form used is the card index, now to be described.

CHAPTER IV

INDEXES AND CARD RECORDS

1. **The Card Index.** The uses of the card index are various, and are not confined to its service in conjunction with the numerical arrangement of the vertical file. An index is an indicator—a device to *point out* where particular articles or documents or items of information are stored away. As letters, invoices, ledger accounts, library books, or anything else can be traced by means only of the names attached to them, it follows that indexes must be constructed on the alphabetical plan. The card index comprises—

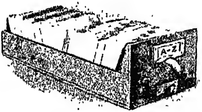


Fig. 18. CARD INDEX.

(1) *A Shallow Drawer*, box, or tray (see Fig. 18), with or without a rod running from front to back in the bottom of the drawer.

(2) *Name Cards*, common size about 5 in. by 3 in., one card for each name, subject, book-title, etc., on the index. The cards stand upright in the drawer.

(3) *Initial Cards*, with projections that bear the letters of the alphabet, one card for each letter. In many cases the letters of the alphabet are further sub-divided as in Figs. 14 and 19. Between the initial cards, the more numerous name cards are arranged, all names with the same initial letter being placed in strict dictionary order amongst themselves.

The card index is particularly suitable for anything in the nature of a register. Such are—

(*a*) Address lists of customers, manufacturers, subscribers, shareholders in companies, etc.

(*b*) Registers of inquiries to be "followed up" when orders do not result from the quotations sent.

(*c*) Records of present and past employees.

(*d*) Library catalogues.

For some purposes, an index in book form may be preferable. Thus, for a ledger in the shape of an ordinary bound book, an index that fits inside the cover of the book is the more convenient kind.

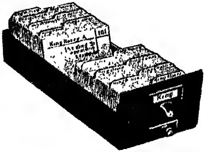


Fig 19. Section of Large Card Index.

Advantages of the Card Index. The card index is at once the most exact and the most elastic form of index.

(1) The chief advantage of the card form for any list of names is that each new entry can be inserted *in its exact place*, so that the strict alphabetical order of all the entries need never be marred by a single misplacement. In indexes of book form, a new name has to be entered on the next available line of the appropriate division, whether that line is in alphabetical order or not. To look for a name in a card index properly kept, we turn to the exact place where the name should be. If it is not there, we know it is not on the index at all, and no time need be wasted in hunting for it.

(2) Another advantage is that, by means of *division cards* of a distinctive colour, the index can be marked out into sections. For example, on a geographical basis, it could be divided into (*a*) London; (*b*) Provincial; (*c*) Colonial; and (*d*) Continental. Each of these sections would have its own full set of A, B, C initial cards.

Again, each initial card may be supplemented by a set of cards for the second letters of the names beginning with that initial; and perhaps further sets for the third letters, and

even for the fourth when the index is a big one. B names, for example, might be supplied with second-letter cards, thus—

Initial	*Second letter*	*Names, in order, following each second-letter card.*
B	A	Baker, Ball, Barrett, Baxter
	E	Beckton, Bell, Benn, Berry
	I	Bibby, Billing, Binns, Birks
	L	Black, Bland, Bloomfield, Blunt
	O	Bolton, Bourne, Bowie, Boycott
	R	Brady, Briggs, Brown, Bryce
	U	Buchanan, Bull, Burns, Buxton
	Y	Byars, Byles, Byng, Byrom

When this practice is followed, it is usual to have the initials all in the first place on the left-hand side of the drawer, the second letters in a second place a little farther to the right. But when initials only are used, they are made to run in fives from left to right across the drawer, as is shown in Fig. 18.

(3) A further advantage, particularly when the index is a library catalogue, arises from the use of *two colours of name-cards*. One colour can be used for the titles of the books; the other for the authors' names. In the card index of a

High Street Extension.

Architect, A. Brown,	*folder 221.*
Landowner, C. Dodd	,, *196.*
Contractor, E. Farmer	,, *327.*
City Corporation	,, *283.*

Fig. 20. Subject Card.

vertical file, specially coloured subject-cards, written up as in Fig. 20, exemplify the same idea. Here the letters from and to each person named on the subject-card are to be found in his own folder, the number of which is given.

(4) Lastly, it is an advantage that only *live names* need be

retained on the current file. The names that have dropped out of use are removed to an "out-of-date" drawer.

The Kardex is a form of card index that keeps the title of each card in view. The cards are inserted in overlapping, transparent covers held flat in the shallow trays of a metal cabinet.

2. **An Ordinary Index** is, of course, in book form and has but one division for each letter of the alphabet. Each name to be indexed is entered in the division that bears the initial of the name. It must be entered in the order in which it first turns up, and, as Fig. 21 shows, this is seldom the dictionary order.

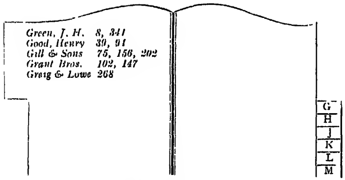


Fig. 21.
ORDINARY FORM OF INDEX, OPEN AT LETTER G.

The Cross-reference of the Copy Letter Book. The Copy Letter Book, if one should be in use, would be indexed as in Fig. 21; but to save our turning to the index in referring from one letter to the next one for the same person, a "cross-reference" is made on the page where each letter is copied. If the above illustration is taken as the index, the letter copied on page 156 would be marked 75/202. This would mean that the next preceding letter to GILL & SONS appears on page 75; and the one next following, on page 202.

3. **The Vowel Index** is a variant of the ordinary book form of index, and is designed to save time in finding a name where

a large number of entries occurs under each initial letter. The section set apart for each initial is cut up into six sub-divisions for the vowels A, E, I, O, U and Y, as in Fig. 22. The name

Fig. 22. SPECIMEN OF VOWEL INDEX, OPEN AT LETTER P.
(Suitable for a Ledger.)

Names		Folios	Names		Folios
— A —			— E —		
PLATT BROS.,	Rugby	104, 321,	PEGG & SON, W.,	Bristol	190,
PAGE, R. G.	York	235,	PRESTON & CO., E.,	London	7, 282,
— I —			— O —		
PITT & SCOTT,	London	117,	PORTER, T. G.	Leeds	94,
PRINGLE, HY.	Leith	33,			
— U —			— Y —		
PURCELL, A.,	Belfast	29,	PRYCE-JONES, O.,	Cardiff	336,

to be entered is allocated, first to the section of the index bearing the initial of the name; then to that sub-division of this section which takes the particular vowel that ***first follows the initial*** of the name. When the names begin with vowels, they follow the rule just given, and are indexed thus—

ASHBURTON,	under initial	A,	vowel	U
EDMONDS	„	„ E	„	O
ILLINGWORTH	„	„ I	„	I
OATES	„	„ O	„	A
UNDERWOOD	„	„ U	„	E

Sub-division of the book form of index may, however, be carried out on other lines.

4. **Card Records.** As an example of the application of the card principle to purposes other than that of an index, the recording of trade advertisements might be taken. The actual size of the card illustrated in Fig. 23, is 8 in. by 5 in. This card was designed to record advertisements in weekly publications, and in other periodicals when not more than

Name of Paper	Key No.	Price Inch	Price Page	Remarks
The New Pictorial	*21*		*160*	

19--		JANUARY.							FEBRUARY	MARCH. 19--
3	*10*	*17*	*24*	*31*		Cost.			Cost.	Cost.
$\frac{1}{8}$th page *21*	$\frac{1}{8}$th page *21*	$\frac{1}{8}$th page *21*	$\frac{1}{4}$th page *21*	$\frac{1}{4}$th page *21*	*3*	*7*	*10*	–		
					10	*7*	*10*	–		
					17	*7*	*10*	–		
					24	*15*	–	–		
					31	*15*	–	–		
						52	*10*	–		

APRIL		MAY.		JUNE.	
	Cost.		Cost.		Cost

Fig. 23. Card Record of Advertisements.

THE NEW PICTORIAL.

— Binding Margin. —

	Key Nos. —	21	Year 19—			Per Reply	Key Nos.	Year	Per Reply
	Replies		Cost				Replies	Cost	
JANUARY . . .	—	621	52	10	—				
FEBRUARY . . .	—	404	30	—	—				
MARCH . . .	—	546	45	—	—				
THREE MONTHS .	—	1571	127	10	—	1s. 7½d.			
APRIL									
MAY									
JUNE									
THREE MONTHS .									
SIX MONTHS . .									
JULY									
AUGUST . . .									
SEPTEMBER . . .									
THREE MONTHS .									
NINE MONTHS .									
OCTOBER . . .									
NOVEMBER . . .									
DECEMBER . . .									
THREE MONTHS .									
TWELVE MONTHS .									

Fig. 24. LOOSE-LEAF RECORD OF ADVERTISEMENT RETURNS.

Ormerod, Henry Haworth,

Brentwood, Mayfield Road, Northenden, Cheshire; Banker.

Binding Margin.	Date of Registration		Transfer, &c. No.	From or To	Distinctive Numbers			Number Acquired		Number Disposed of		Balance	
					Acquired		Disposed of	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.
	19--												
	Feb.	*4*	*1275*	*G. W. Lockwood*	*62,301*	*800*		*500*				*500*	
	Mar.	*20*	*1292*	*H. Duckworth*	*21,071*	*120*			*50*			*500*	*50*

Fig. 25. Loose-Leaf Share Register, *where the Shares are fully-paid, and Preference and Ordinary Shares are shown in the one Account.*

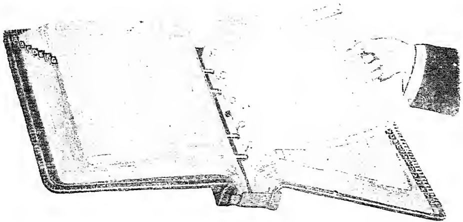


Fig. 26. Loose-leaf Account Book.

five advertisements appear each month. The card is intended to show the date of each advertisement, the space occupied, and an indication of the nature of the announcement. The price of each insertion and the total cost for the month are filled in when the advertising account is received and checked with this card. A similar ruling on the back takes the second six months of the year. The monthly charge for each paper, the number of replies traced by means of the key number (copied from the advertisement into the replies), and the cost

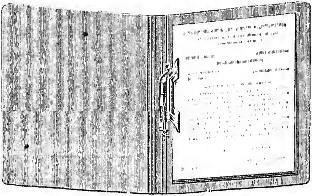


Fig. 27. LIGHT LOOSE-LEAF COVER ("KISMET").

per reply, are all summarized in a loose-leaf book, under the name of the publication as shown in Fig. 24. The summary is constructed so as to permit month being compared with month, and year with year.

§ 5. **Loose-leaf Books.** Some of the advantages of the card method may be applied to the keeping of records in book form, if what is known as the "loose-leaf" system is adopted. Instead of sewn leaves, single removable leaves are used, the leaves being held together very tightly in a strong cover by pressure alone. The method is suitable, with modifications, for ledger accounts, wages sheets, departmental analyses of sales, purchases, etc. The secretary of a public company

would find it convenient to keep his Share Register in loose-leaf form (see Fig. 25). With the share accounts arranged in dictionary order, there is no longer any need for an index in addition. Dictionary order is also followed in arranging the records of advertising media of which Fig. 24 is a specimen.

The two kinds of records last referred to are bound together between strong, durable boards in permanent books. Fig. 26 shows what such a book looks like, and how a leaf is removed or a new one inserted. Fig. 27 is an illustration of a light cover or binder for papers kept together on the loose-leaf method. It is suitable for catalogue sheets, price lists, or any kind of light papers that one may desire to be held together and yet be separable; and that are being kept for temporary purposes only. This binder may be used in the vertical file, instead of the ordinary folder, when the papers to be filed under one name are numerous; or when invoices or similar documents are filed by names, and not on the numerical plan explained in the previous chapter.

CHAPTER V

ON BUSINESS DOCUMENTS

1. An Invoice is a written note showing quantity, description, price per unit, and total value of goods supplied or showing particulars of work done or services rendered. It is sent by the seller to the buyer on delivery of the goods or on completion of the work.

Example No. 1.

BINKLOW MILLS,
DEWSBURY. *20th Nov., 19--.*

MESSRS. PINKERTON & SMITH,
LONDON.

Bought of FIRTH, SHIPLEY & CO., Limited.

					£	s.	d.
1938	48½						
	51½	100	2 pieces, Black Worsted	10/9	53	15	–
1131		49	1 „ Blue Serge	6/9	16	10	9
696	50½						
697	51						
698	49½	151	3 „ Tweeds	7/3	54	14	9
			Canvas		–	4	6
					125	5	–
			per L. & N.E R., carriage paid Your Order—328. 3¾% prompt.				

Example No. 2.

131 Great Ancoats Road,
Manchester. *15th Dec., 19--.*

Mr. Benjamin Brown,
Bolton.

Bought of HARDACRE & EARNSHAW,

Furniture Manufacturers.

		£	s.	d.
1	Walnut Drawing-Room Suite	26	5	–
1	Oak Bedstead	6	16	6
		33	1	6
	Trade Discount, 20% ..	6	12	3
		26	9	3
	per L. M. & S.R., carriage forward.			

Example No. 3.

Birmingham,
10th Jan., 19--.

Messrs A. B. Kenrick & Sons,
Handsworth.

Invoice from TEMPLETON, JENKINSON & CO.

		£	s.	d.
Overhauling and repairing your "Eclipse" Motor Waggon, and supplying new parts as specified in our quotation of November 20th	net	57	10	–

The foregoing are specimens of the home trade invoice; the export invoice is treated of in Chapters XIII and XIV. Copies are kept of all invoices sent to customers. How the copies are taken has been explained in Chapter II, and the filing of the copies in Chapter III. The word "invoice".

is connected with "envoy," a messenger. Perhaps it was originally the plural, *envois*, of the French noun *envoi*, meaning a sending or something sent.

A *pro forma invoice* is a note in the form of an invoice. It is made in the case of a proposed sale to show what the charge or charges would be were an actual sale effected. A pro forma invoice is also furnished to an agent when goods are sent to him "on consignment," to be sold by him on the owner's behalf at the best price he can get.

2. A Statement of Account is a written note sent by a creditor to his debtor, showing such portion of the debtor's account as is due for payment, and setting out the dates and amounts of the various items that make up the sum claimed.

Example No. 1.

HINKLOW MILLS,
DEWSBURY. *27th Nov., 19—.*

MESSRS. PINKERTON & SMITH,
LONDON

Dr. to FIRTH, SHIPLEY & CO., Limited.

			£	s.	d.	£	s.	d.
19— Nov.	20	To Goods ..	125	5	—			
	25	" " ..	26	12	6			
						151	17	6
	27	By Overcharge ..				1	17	9
						149	19	9
		3¾% prompt						

Statements of account are commonly sent out for a month's transactions at a time; but they may be rendered for shorter or for longer periods in accordance with the terms of credit recognized in the particular trade, or agreed upon specially between the parties to the transactions.

Example No. 2.

MANCHESTER. *30th Dec., 19--.*

MR. BENJAMIN BROWN,
BRADSHAWGATE, BOLTON.

Dr. to HARDACRE & EARNSHAW.

			£	s.	d.	£	s.	d.
19--		A/c rendered				41	2	3
Dec.	10	To Goods	1	10	6			
	15	" "	26	9	3			
	22	" "	8	3	4	36	3	1
						77	5	4
Dec.	1	By Cash	30	–	–			
	17	" Allowance	–	10	–	30	10	–
						46	15	4

3. Invoice and Statement Compared. An invoice is made for the purpose of showing *particulars of the goods* sold or of the services rendered, and not with the object of requesting payment. On the other hand, the purpose of a statement of account is to show *what is owing* by the debtor, with a view of his remitting the amount when the date for payment arrives. It does not contain particulars of the goods or services that the sum is owing for. Because of this distinction in purpose, it is better to reserve the words "Debtor to" for the heading of the statement, and not to use them, as is often done, in the heading of the invoice. On an invoice for work only, say for bleaching cloth or for carting bricks, the words "Invoice from" may be substituted for "Bought of," if the latter are thought to be inappropriate.

4. Passing the Invoice. (1) The *quantities* charged must be checked with what are received, and with what were ordered, as shown by the buyer's copy of the order given.

(2) The *prices* charged should be checked with the qualities supplied; also with the prices stated in the order, or in the price list or quotation on which the order was based.

(3) All *calculations*, whether extensions or additions, must be checked before the invoice is passed as correct.

(4) The invoice should be ***initialed*** by each of the several persons concerned in the checking, and then by the buyer responsible for having ordered the goods. So that this may

Goods received on ....
" checked by ......
Prices " " ......
Calculations " " ......
Invoice passed " ......

be done neatly and in regular course, it is best to provide spaces for the initials by a rubber stamp impression made on the invoice in a form like the illustration above.

5. Debit Note and Credit Note. A *debit note* is sent by the purchaser to the seller when the purchaser claims the value of goods he has sent back, or of an allowance due to him.

A *credit note* comes from the seller to the purchaser when returns are taken back from the purchaser, or when an allowance is made to him.

To debit is to *charge* an amount to an account; to credit is to *allow* one.

1. Example of Debit Note.

1232 OXFORD STREET,
LONDON. *25th Nov., 19--.*

MESSRS. FIRTH, SHIPLEY & CO., LTD.,
DEWSBURY.

Debited by PINKERTON & SMITH.

			£	s.	d.
151	yards Tweed overcharged in your Invoice of the 20th inst. .. @	3d.	1	17	9

2. Example of Credit Note.

DEWSBURY,
27th Nov, 19--

MESSRS. PINKERTON & SMITH,
LONDON

Credited by FIRTH, SHIPLEY & CO., Limited.

		£	s.	d.
Overcharge in our Invoice of the 20th— 151 yds Tweed .. .. @	3d.	1	17	9

6. **Receipts.** Care should be taken to see that formal receipts are obtained for all amounts paid out. The receipts should be filed away in order, and kept as vouchers to authenticate the Cash Book entries of outgoings. The receipt is also the best evidence of payment that can be produced when, as sometimes happens, a demand comes to hand for an account that has already been discharged.

When money comes in, a receipt is given in return. It should be given on a printed form taken out of a receipt book and bearing a serial number. The receipts given by some business houses are on forms of ordinary commercial size. Others are quite small—so small that one may be stuck on at the bottom of the statement of account for payment of which it is issued. The size is of less consequence than enforcement of the regulation that a copy be kept of every receipt written, the copy being either a counterfoil or a carbon duplicate. These copies are the source from which all entries of incoming cash are made in the Cash Book. By observance of the rule that a copy must be kept in *every* case, omission of entries is prevented, and consequent trouble in the balancing of the cash is averted. The rule also helps to prevent what might give serious offence to a customer, namely, the failure once in a while to credit an account with cash received.

A sum short of the full amount due, sent in settlement of a debt, may be retained in part payment and claim may be

made later for the balance, provided the receipt states that the payment is taken "on account" or "in part payment" only. Such a receipt would, of course, be accompanied by a letter of explanation.

Form of Receipt.

No. F 12824. BRISTOL. *1st Dec., 19...*

RECEIVED from MESSRS JONES & HIGGINS, Nottingham, the sum of Two hundred and one pounds in part payment of our November account.

For WILKINS & GOODRICH,

£201 0 : 0. GEO. E. MILLS.

Every receipt for £2 or upwards should bear a twopenny revenue stamp. The stamp must be affixed and cancelled when the receipt is given, unless the receipt is written on a form that already bears an impressed stamp.

7. **Specifications.** In the engineering, building, and allied trades, work is carried out in accordance with specifications and drawings prepared by draughtsmen, architects, and others specially skilled in this work. A specification sets out in order and in detail all particulars of material, quality, shape, size, etc., of the various parts of the building or the machine to be constructed. It is on the basis of the specification that the cost of the contract or job is estimated before the tender or quotation for carrying out the work is sent in. To show the nature of the contents and the manner of setting out the particulars, a short extract from a ***building specification*** is given below—

MASON.

Quality. *201.* All stone to be of the best quality of its kind, free from vents, beds, sand or clay holes, threads, flaws, and all other imperfections; set on its natural bed, unless specially excepted, in fine mortar; cleaned down at completion and left perfect.

Injury. 202. Any stone injured during the progress of the building shall be replaced, or the full cost of such stone deducted from the contract sum, at the option of the architect.

Stones to be square. 203. Every stone to hold its full length and height square to the back.

Moulds. 204. The whole of the mouldings to be worked to zinc moulds.

Steps and Thresholds. 205 All steps and thresholds to be 9 in. longer than the openings; all steps and landings of staircases to be pinned into the walls adjoining, at least $4\frac{1}{2}$ in. where there is a wall at each end; elsewhere, 6 in.

Jambs. 206. The jamb stones of doors and windows to extend from face of wall to face of frame, and from face of wall to back of frame, alternately.

The next example is part of the *specification of a motor waggon*—

Capacity. The capacity of the chassis to be two tons. This load to be in addition to the weight of the chassis complete with oil and petrol tanks and accessories, ready for running.

Drive. The chassis to be driven by means of a counter-shaft, thence by chains to rear wheels, following the standard practice.

Motor. 30 H.P. The motor to be of standard make, having four cylinders cast *en bloc*. The cylinders of "L" head type, water-jacketed throughout, with ample water space. The motor to be supported at four points and connected directly with the transmission on the "Unit Power Plant Construction." The motor to be fitted with a high-tension magneto.

Front Axle. The centre part of front axle to be of I-beam section, drop-forged and heat treated. Steering knuckles to be of $3\frac{1}{2}$% nickel steel, double heat treated.

Rear Axle. Solid rectangular forging, 2 in. × 3 in., of vanadium-chrome-nickel steel, double heat treated. All axle bearings to be of the taper roller type.

Jackshaft. The jackshaft . . . . . .

8. Quotation. The following is a simple specimen—

HIGHFIELD WORKS,
STOCKPORT. *30th Oct., 19...*

MESSRS. BROWN, JONES & GIBSON,
MANCHESTER.

Dear Sirs,

We thank you for your inquiry of yesterday, and we have the pleasure of submitting, at the foot hereof, our quotation for

your requirements. Should you entrust us with your orders or favour us with further inquiries, we shall always give them prompt and careful attention.

Yours faithfully,

Walter Henshaw, Ltd.,

A. D.

QUOTATION.

Round Leather Banding @ 27s. *the* 100 *feet.*

" " " @ 45s.

Cuttings enclosed.

Orders for £1 *or over, delivered free.*

Terms—2½ % *monthly account.*

CHAPTER VI

THE COURSE OF A TRADING TRANSACTION

FROM commencement to completion, a typical trading transaction would consist of a number of steps such as those, or some of those, described below.

1. Inquiry and Quotation. (1) *The inquiry* would emanate from the person or company in need of the goods. It would probably be sent to several competing merchants or manufacturers, so that their prices and samples could be compared and the goods bought to the best advantage.

(2) *A quotation*—sometimes called an *estimate*, and at other times a *tender*—would be received from each competitor, and would contain an exact description of the kind and quality of goods he was willing to supply, the price he would charge, the time he would take to execute the order, and so on.

2. The Order would be given by the purchaser on the basis of the quotation accepted. Where a customer had already in his hands the merchant's or manufacturer's latest *price list* for the kind of goods required, he would order from the price list, and neither inquiry nor quotation would be necessary.

A *Price List* is a list of prices intended to remain in force for a season, or for some months or some weeks at least. The issuer should abide by the prices named in it until he has given notice of its withdrawal. On the contrary, a *Prices Current* is for a particular day only, and for commodities that fluctuate in value from day to day. The issuer of this is not bound to accept orders at the prices named in it.

Every order should bear a serial number by which it can be identified when it is necessary to write about it; and an exact copy of the order should be kept by the sender. Where the following points have not been embodied in a quotation,

it is important, (*a*) that the purchaser should state fully in his order the description of the goods, the exact quantities and prices, the time and place of delivery, and in the case of a new account, the terms of payment; (*b*) that, where the goods are for future delivery, the seller should be required to furnish a written *Confirmation of the Order*, to show that he agrees to all the terms named by the purchaser. Where the order is for textiles for future delivery, the manufacturer usually furnishes his customer with what is called "an illustrated copy of the order," *i.e.*, a sheet with pattern-snips of the materials ordered neatly pasted on to it, and opposite each pattern the quantity to be supplied and the price to be charged. If both parties are explicit at the beginning of the transaction, they will obviate future dispute.

3. **Opening an Account.** When a merchant or manufacturer takes an order from a new customer about the soundness of whose financial position there is any doubt, the merchant or manufacturer asks for trade references; that is, for the names of business houses the customer has had dealings with. Before executing the order, the supplier of the goods writes to the houses named, asking if they know his new customer to be good for credit, say up to a stated amount; and if he pays his accounts regularly and in time for discount. Two references at least should be required, so that the answers may be compared. If the order is taken by a traveller showing samples, he should ask the new customer for the references, and should send them on to his principal along with the order. The traveller may also find out what he can about the customer from people he meets, perhaps from other travellers, not competitors. Suppose the customer is a house furnisher, and the traveller is selling brass bedsteads, there would be no harm done by his seeking information from a fellow traveller calling on the house furnisher for carpets or window curtains or earthenware.

The bedstead manufacturer may also apply to a *status inquiry office* for a report about the tradesman in question. Such offices exist for the special purpose of collecting and

supplying confidentially information about the status or standing of business houses and persons who buy on credit. Further, the manufacturer may get his own banker to make the inquiry from the banker of the customer. It would be of no use his applying to the customer's banker direct, for, unless in very special circumstances, banks do not supply information about their customers except to other banks. References from good trade houses are the best, as a rule; they are more to be depended on.

Replies to inquiries of this kind should always be true representations. Particularly if they can be made to bear the least unfavourable interpretation, they should be marked "Private and Confidential" as a protection against possible action for libel by the person reported upon. The receiver, too, who has acted on a status report that was not true, and has suffered loss in consequence, has a right of action for damages against the maker who misled him.

4. **The Invoice, etc.** An invoice will be sent when the goods are despatched; or, if payment is required before delivery, it will be sent when the goods are ready to go. Should an invoice be delayed after goods are sent off, a *Delivery Note* or *Advice Note* should be supplied at once stating the number and description of the articles, and by what route or carrier they are being conveyed.

Returns and Allowances. A customer should advise returns, or make his claim for an allowance or overcharge, by sending a debit note to the supplier of the goods. The latter, if he agrees, should notify his agreement by sending the customer a credit note for the amount claimed.

5. **Rendering the Account.** In the old-fashioned methodical office, the monthly statements of account were copied in the copying press; but it was never really necessary to take all that trouble with them, for the particulars of each account could always be found in the ledger. It is advisable, however, to keep a book (see page 61) in which to enter the name and total of each of the statements rendered, and the date of rendering. The "Remarks" column serves to record any foot-notes

put on the statements before they are sent out, or to show the dates of letters written about accounts that are overdue.

DECEMBER STATEMENTS OF ACCOUNT, RENDERED JAN. 14, 19- -

Folio	Name	Amount £			Remarks

6. Remittance of accounts due for payment is usually made by cheque, except when the amount is not more than a few shillings. The cheque should be enclosed with the creditor's statement, or with a remittance letter—a printed form on which are filled in the amount of the cheque, the discount, and any other deductions that the remitter may have made. The statements should, of course, be carefully checked item by item, and discounted before the cheques are drawn. The reputation of being a good payer is not the least valuable of a business man's possessions. Rather is it one that he should guard with jealous care. Ability and readiness to pay not only secure him the best prices and discounts at all times, but often bring him the chance of a profitable purchase that his less fortunate or less punctilious rival never hears of.

When the amount to be remitted is very small, a *postal order* is commonly sent in place of a cheque. The use of *money orders* is almost confined to persons without bank accounts, who, for that reason, cannot pay by cheque. The money order is safer than the postal order because the issuing post office takes the name of the sender, and the name of the person to whom the money order is to be paid. In the money order as issued to the remitter, these particulars do not

appear; but they are sent by the issuing office, together with the other particulars of the order, to the office where it is payable. The paying clerk there must obtain a receipt, and before handing over payment he must see that the name in the receipt corresponds with the name in his advice. A postal order, on the contrary, is issued in blank and without advice, so that any holder can insert his own name or that of any other person, and the name of any paying office. Both postal orders and money orders, if crossed, must be collected through a bank, and when that is done, the formalities of payment mentioned above are dispensed with.

Duplicates of lost postal or money orders are obtainable if after the lapse of some little time the originals remain unpaid. The issue of a duplicate postal order is made on condition that its value shall be refunded should the original afterwards be cashed. Also in the case of a lost postal order the duplicate may be refused if the counterfoil has not been kept, and the name of the payee and the paying office not filled in on the original. After once paying a money or a postal order, by whomsoever presented, the Postmaster-General is not liable to any further claim. Money orders may be transmitted by telegraph; and both ordinary and telegraph money orders are made payable at places abroad. For further information, see the Post Office Guide.

7. **The Receipt**, or acknowledgment of the sum remitted, has been dealt with already. Money coming in by post should always be acknowledged on the day it is received; and, in case there be a discrepancy, the remittance should be compared with the ledger account of the debtor before the receipt is given. If there is a difference, the customer's attention should be called to it at the time. He should not be allowed to form the belief that the account has been settled, and some time afterwards have an intimation of the difference sprung upon him.

8. **Bills of Exchange.** Settlement of accounts is sometimes effected by means of bills of exchange payable at future dates. These documents are transferable from one person

to another. They will be explained at some length in Chapters XI and XII. A bill of exchange drawn on the debtor and accepted by him is a definite undertaking on his part to pay at a specified date the amount named in the bill, and the undertaking can be enforced in the courts. Action may be taken upon it without the necessity of proving that the goods it was given for were delivered, or that they were in accordance with the customer's order. The acceptor fulfils his undertaking if it is at all possible for him to do so, because failure to meet the bill at maturity would bring him into discredit by letting it be known to all parties concerned in the bill that he was not keeping his engagements.

9. **Collecting Overdue Accounts.** Statements of account to be sent out should be carefully scrutinized to see that customers are not falling behind with their payments. Perfunctory foot-notes on statements are not, however, the least objectionable or the most efficient means of getting overdue accounts in; and it would be well not to resort to them except where the accounts are very small, or where the delay in payment is believed to be due entirely to oversight. A civil and sensible letter enclosed with the statement, drawing attention to the delay and inquiring what the debtor's intentions are, is much more likely to bring a reasonable reply. The object of correspondence about an overdue account is to get the whole of the money in at once if possible; failing that, to get a payment of part at once and to reach an agreement about the balance. Perhaps the debtor can be induced to accept a bill drawn upon him. At the very least the creditor should try to elicit a promise, that his customer can be held to, of payment being made on a definite future date. If debtor and creditor are located in the same town, a call about the account would probably be more successful than a letter about it would; and, even where the debtor's business is in a distant town, a visit to him would be advisable if the sum at stake is a large one.

When other resources are all exhausted, the debtor may be notified that, if payment is not forthcoming by a given

day, legal process will be set on foot. For small debts, the County Courts are used. The limit of jurisdiction of these courts for an ordinary trade debt is £100; and a summons will be issued and subsequent proceedings taken on application by the creditor or his agent. For a debt of £20 or any larger amount, a writ is obtainable in the High Court; but there the services of a solicitor are needed, and the costs are on a higher scale.

10. Discounts, Interest, etc.

(1) *Cash Discount* is an allowance in reduction of the amount of an account. It is given for payment of the account on or before a recognized date, and it should not be deducted from the amount until payment is being made.

(2) *Trade Discount* is an allowance in reduction of the price of goods sold. It is made without regard to the time when payment may be received, and it is deducted from the invoice. Both kinds of discount may be allowed on one transaction.

Trade discount may represent the retailer's profit, as where the manufacturer issues a catalogue that fixes the price of his goods to the general public. Or, for goods that rise and fall in value frequently, it may be used as a means of raising or lowering the catalogue prices simply by changing the rate of the trade discount, and without incurring the expense of printing a new catalogue.

(3) *Rates of Discount.* Discounts are usually calculated at so much *per cent.* of the amounts to be discounted. Cash discount takes a low rate, such as 1¼ %, 2½ %, 3 %, 3½ %, 3¾ %, 4 %, or 5 %; trade discount, commonly a higher rate, such as 10 %, 12½ %, 15 %, 20 %, 25 %, 33⅓ %, and even 50 % or more.

(4) *Banker's Discount* is interest (see below) charged by a banker when he advances the value of a bill of exchange before the bill is due, and takes the bill in return for the advance. The discount, or interest, is calculated on the amount of the bill—not on the sum advanced—for the time that the bill has still to run. See pages 123 and 238.

Example.

On a B/E of £300, due two months hence, and discounted at 4 % p.a., the discount would be £2. The banker would advance £298.

(5) *Interest* is a charge made for the loan of money, or for delay in the payment of a debt. It is usually calculated at so much *per cent. per annum.*

(6) *Commission* is a recompense to an agent, traveller, manager, or other person, the amount varying with the value or the extent of the trade done or services rendered by him. It is commonly calculated at so much *per cent.* of the turnover of a traveller, department manager, or selling agent.

(7) *Calculation of Cash Discount.*

Method No. 1.

5 % is 1s. in the £1; 2½ %, 6d. in the £1. For example—

5 % of £237 13s. 4d. is 237 shillings + 8 pence = £11 17s. 8d.; and 2½ % of £333 19s. 3d. is 334 sixpences = 167 shillings = £8 7s. 0d.

So 3¾ % = 1½ times 2½ %; 6¼ % = 1¼ times 5 %, and 7½ % = 1½ times 5 %. For example—

3¾ % of £91 11s. 6d. = 45s. 9½d. + 22s. 10½d. = £3 8s. 8d.

Method No. 2.

This is to be used for such rates as 3 %, 3½ %, 4 %, and 4½ %. Take the number of round pounds nearest to the amount to be discounted. Multiply that number by double the rate per cent. In the product, call the units digit pence (or, correctly, tenths of a shilling), and the other digits, shillings. For example:

3½ % of £323 7s. 1d. gives 322 × 7 = 2,254, which gives the discount as 225·4 shillings; say, £11 5s. 7d. on £322 7s. 1d

Proof. 3½% discount on £100 = £3·5
" " " 1 = £0·035 = ·7 shillings.
" " " 322 = 322 times ·7 shillings.
= 225·4 shillings, as above

It should be noted that the deduction of two discounts successively does not yield the same result as the deduction at one time of the two rates combined. £100 less 25 %

leaves £75; but in £100 less 20 % and 5 %, the £100 less 20 % leaves £80; and then £80 less 5 % leaves £76.

11. Terms of Payment.

Net = Without discount.

Prompt = Within one to ten days from delivery of the goods.

$3\frac{3}{4}$ % prompt = $3\frac{3}{4}$ % discount for payment within one to ten days.

$2\frac{1}{2}$ % one month = $2\frac{1}{2}$ % on payment after one month's credit. Accounts are very often rendered for one month's transactions at a time. The exact date of payment varies in different trades, and in some cases may run to nearly two months from the average delivery date.

3 % weekly = 3 % allowed if goods supplied in one week are paid for in the week following.

C.O.D. = Cash to be paid on delivery.

C.W.O. = Cash to be sent with the order.

12. Average Due Date. Suppose we are required to draw a bill of exchange at three months' date for the total of the following invoices—

March	10.	£113	18	4	
	19.	201	10	6	
April	2.	54	12	2	*Total*, £370 1s. 0d.

If the whole of the goods had been invoiced on one day, the bill would have been drawn at three months from that day. Here we must find what date will be a fair substitute for all three dates named, taking into consideration the differences in the amounts of the invoices. We average the account as follows—

April 2 is 23 days from Mar. 10, and	$54\frac{1}{2}$	×	23	=	$1,253\frac{1}{2}$
March 19 „ 9 „ „ „	„ $201\frac{1}{2}$	×	9	=	$1,813\frac{1}{2}$
„ 10 „ 0 „ „ „	„ 114	×	0	=	0
	370				3,067

3067 ÷ 370 = 8·29, which gives 8 days from March 10, as the average date. The bill is drawn at three months from March 18; for £370 1s.

CHAPTER VII

ORGANIZATION AND CONTROL

1. The Object in View. The simplest business, so far as control is concerned, is one run by a single person, who orders goods, attends to customers, packs parcels, keeps stock, writes letters, checks and pays accounts, calculates his profits, sweeps his own floors, no doubt; and does everything himself. When the business grows, the owner will engage assistants to work under his direction. If it continues to grow so that it becomes too big for him to supervise without help, he will divide the duties of management and, in sharing them with others, will keep for himself the leading part. It is the object of this chapter and the next to sketch the main lines on which a business is commonly organized and controlled. Hitherto, office work has taken nearly all our space, especially the routine work of the office. Only now and again have we touched on organization in a wider sense. Here it is proposed to carry our view of business activities beyond mere office work, and in still later chapters many more points in this wider outlook will come up for consideration. As regards our immediate purpose, it should be understood that all the arrangements about to be outlined do not necessarily exist, in fact are not at all likely to exist, side by side in any one undertaking. Moreover, railways, banks, insurance offices, and businesses not engaged directly in the buying and selling of goods, are all organized on principles peculiar to the kinds of service they render.

2. Retail Trade.

(1) *Its Nature.* Retail trade is the section of business activity that supplies the personal wants of the individual consumer, selling to him without intermediary over a sale-shop counter, and exhibiting its wares in the shop windows familiar to us all. Nearly the whole of retail trade is carried

on in shops; and much the greater part of shopkeepers' trade is done for ready cash; though credit is freely given by some tradesmen to customers they know, and often to those they do not know. Some retailers, notably piano dealers and house furnishers, work on the instalment system. The old-style shopkeeper, who allows his customers credit, sends his accounts out once a quarter only. The new-style retailer prefers to sell for cash exclusively, and to give the customer the benefit in the price.

(2) *The Multiple-shop Business.* During recent years, the retail trade has been invaded by the multiple-shop business—that which owns branch shops all over a locality, or all over the country; always sells for cash; and supplies its branches from a headquarters which, as often as not, is a factory in a central town. Such businesses sometimes claim to benefit the community by supplying direct from manufacturer to consumer and eliminating the profit of the wholesale merchant. Some of them may keep the level of prices down; but it would perhaps be nearer the truth to say that these businesses sell at prices very similar to those of other retailers, and retain the wholesaler's profit for themselves. As a rule, goods can be produced in large quantities at one factory, and distributed to the branches from one centre, more cheaply than if they were produced at different places and distributed from several supply depots. But over-centralization will add to the cost of carriage and to the time taken to deliver supplies to distant shops; so that local supply-depots may become a necessity.

(3) *Departmental and Mail-order Stores.* Another of the developments of retail trade in large cities is the kind of shop commonly called "a stores." The ordinary retailer confines himself to one class of goods, or at most to but a few classes of similar goods. The stores is laid out in departments that sell goods of many different kinds, and it may also offer its services as furniture remover or house decorator, as banker or insurance agent. In a London business of this kind, not the least interesting or important of its departments is the

one that arranges the despatch of goods and controls the fleet of delivery vans. An establishment like Harrods' Stores is much larger than many a wholesale house, and buys on quite as good terms. The department stores offers its customers facilities for making all their purchases under the one roof. These establishments reach full development only in the midst of a dense population; and the multiple-shop business competes with them by opening branches throughout the suburbs of the cities, and thus carrying the goods to the customers' very doors. Perhaps the origin of both kinds of business was the desire of the prosperous tradesman to find a wider use for his accumulating capital.

The large stores frequently engage in what, to use an American phrase, is known as the "mail-order trade." They issue regularly a printed catalogue asking distant customers to order from the catalogue, and send the orders on by post. Other retail concerns, again, restrict themselves to mail-order business, carrying on their operations from a warehouse in a convenient town, and relying on their catalogues and advertisements in newspapers and other periodicals to keep their trade in full swing. In a huge country like the United States, where large areas are sparsely populated, the mail-order business would be a natural growth when once regular post and parcels services had been instituted. The system is certainly convenient in any country for people living in out-of-the-way places, or at a distance from good shops Needless to say, this postal business is a cash-with-order trade; unless parcels, either for home or abroad, are sent by the cash-on-delivery services offered by the Post Office or the parcel companies.

3. Retailer and Wholesaler.

(1) *Relation of Retail and Wholesale.* The retailer is to be found established in every village—in any place where there are persons in numbers sufficient to support him by their custom. Usually he depends for his supplies on wholesale merchants. The wholesaler in his turn obtains supplies from manufacturers, or from growers or importers of the commodities

he sells. Wholesale dealers establish themselves in large towns; for some goods, they are to be found only in certain cities. The wholesale merchant has a more intimate knowledge than the retailer of his goods and their prices, of the markets in which to buy, of coming demands and possible supplies. To some extent, therefore, the retailer uses him as an expert adviser. His warehouse is a place for the collection and display of a large variety of goods, where the retailer can supply his wants much more conveniently than he could by visiting manufacturer after manufacturer for the different goods he needs. Besides, very many of the manufacturers would not sell to the retail, as the quantities that ordinary shopkeepers order are too small to be produced economically. Further, when a manufacturer does call on the retailer, the wholesale men resent his doing so. If they can, they take steps to prevent its recurrence, and threaten to take their own large orders away from the manufacturer, and place them elsewhere. Some manufacturers, however, deliberately pass the wholesalers by and send their own travellers round to the retail shops. They are usually the makers of specialities or of brands of goods, and they advertise them so extensively that the public asks for them at the shops.

The wholesale warehouseman buys in bulk and sells by the gross or the dozen, the hundredweight or the piece; whilst the retailer, buying in these quantities, sells by the single article, by the pound, or by the yard, as his customers have only their individual wants to satisfy. A retail mantle dealer will take as long to sell a single coat as his wholesale merchant takes to sell a dozen or a hundred coats. In addition, he has to incur a large expense by maintaining a position in a busy thoroughfare where rents are high, and by keeping his shop attractive with new and costly fittings. His profit on the single coat is therefore comparatively large, whilst the wholesaler's or the maker's profit is comparatively small.

A further distinction between the retail and the wholesale trades is that, whereas in the former sales are usually ready-cash transactions, in the latter the customary practice is to

allow credit to the buyer. It is more convenient for the wholesale merchant to have a settling-up once a month with his regular customers, whom he knows, than it would be to take the money, give a receipt, and make relative book entries for every single parcel. Moreover, the giving of credit stimulates trade; it induces customers to order more readily; and it allows them time to sell their purchases or a considerable part of them, and so be put in funds, before they need to pay. The retailer who takes credit trades, to the extent of the credit he takes, on the capital of the wholesale houses which supply him with his goods.

(2) *The Marking of Prices.* Many kinds of goods are sold with price tickets attached. Where that is the case, a straightforward retailer need have no objection to marking his selling prices in plain figures, so that his customers may read them. He would never agree, however, to showing thus openly what are the *cost prices* of the articles he sells. That would disclose his profits. Yet it is desirable that he should in some way mark the cost prices on his goods, as he needs to refer to these prices at various times. At stocktaking especially does he want them, and the most convenient place for a retail tradesman to keep his cost prices is on the articles themselves. He therefore marks the costs on the tickets—but he marks them in cipher.

Now the cost to the retailer is the selling price of the wholesaler. It follows that if the latter were to mark his selling prices in plain figures, he would cause annoyance to his customers. They would be obliged to remove all his tickets and find new ones before they offered the goods for sale. For that reason the wholesale dealer usually marks his selling prices, as well as his costs, in cipher. One way is to give each article a number containing about seven figures. The first three figures may be the pattern or quality or style number of the article, and the last four may indicate the price. On this method, in the numbers 1232506, 1242611 and 1253010; the wholesale selling prices would be 25s. 6d., 26s. 11d., and 30s. 10d., respectively.

Another method of concealing prices from all but the initiated is to take a name or other combination, of eleven letters, and use the letters in the place of figures. In the example—

1	2	3	4	5	6	7	8	9	0	Repeater
K	I	N	D	E	R	S	C	O	U	T

IR/KT would be 26s. 11d., and ET/O, 55s. 9d. If selling-prices were indicated by the first method, the second could be used for costs. Or special symbols that were invented for the purpose, and were neither figures nor letters, could be employed.

(3) *Adaptability to Public Needs.* Just as the individual buyer has usually a choice of retailers to whom he may take his wants, so the ordinary retail dealer need not be dependent on a single wholesale house, nor the wholesale house on a single manufacturer. These conditions permit of free play for the exercise of judgment in the selection of goods, for traders specializing in particular directions, and for competition in efficiently meeting the public wants. On the other hand, the multiple-branch type of business is often tied to a single source of supply. Then this and the stores type are under a somewhat rigid and inelastic direction from above, which results in a less personal contact with and influence upon customers than the independent shop owner enjoys. Yet, as these types of business have no monopoly of trade, their continued growth proves that they give satisfaction to no small extent. To be successful, they are forced to show as much adaptability, if not in one way then in another, as their smaller competitors do. Huge turnover and large capital give them the advantages of being able to buy at the keenest prices, of being lavish in their inducements to draw and to keep the public favour, and of attracting to their service by large salaries the cleverest and most energetic men that can be had. One count against the big business is that in it officials tend to multiply unduly, that the managerial, inspectorial, statistical and other work set them to do is

carried to excess. This, together with the difficulty of perfectly controlling an immense and intricate enterprise, makes the cost of administration very high.

(4) *Departments.* A wholesale establishment, or a large retail one, is usually divided into departments corresponding to the different goods the business sells. Each department is put under a manager or "buyer," who is an expert in the class of goods he handles, and who holds his position on the condition that he shall make his department pay. Department managers are, of course, subject to the head of the business, who exercises a general direction over the whole.

The establishment will be fitted throughout with interdepartmental telephones and with a switchboard to connect any department direct to the Post Office telephones outside. Elevators will take customers from floor to floor to save them the trouble of climbing stairs; and hoists will be provided for the moving about of heavy merchandise. Smaller parcels may be picked up and carried off to the packing room or forwarding department by automatic mechanical conveyors on the moving platform principle, like escalators without the steps. And in retail stores, by means of carriers run on overhead wires, or by means of pneumatic tubes, cash may be sent and receipts returned to and from cash desks placed at convenient points.

(5) *The Co-operative Movement.* Mention must be made of the co-operative society whose members are at the same time both the customers and the proprietors of the store, and whose operations have grown to very considerable dimensions. The retail society's capital is subscribed by its individual members, and the profits made are divided periodically amongst them. The wholesale co-operative society has the retail societies for customers; its capital also is subscribed by the retail societies, and its profit passes to them. All this is only for the distribution of goods, chiefly personal and household goods. But the idea has been applied to production also, both by the wholesale society itself, and by other societies engaged in production solely and financed by various members

of the system. The original conception of co-operative production has not made headway. It was that the workers in a manufacturing process should combine to run the mill or works themselves, and divide the profits amongst themselves.

4. **The Works or Factory.** Reference has been made to the manufactory as selling to the wholesale trades. We have seen, too, that a factory may be owned and run by a wholesale house which makes some of its wares itself. We have found that a manufacturer may sell direct to the retail trade, as when makers of soap, jam, clothing, hats, and many other articles have their own salesmen calling on the shopkeepers that sell these goods. And we have learned that a manufactory may be the supply depot of a system of multiple-shops, as when numerous boot shops in different towns all belong to and are supplied by the owners of a boot factory in Leicester or Northampton. It is just as likely, however, that the factory supplies neither the wholesale nor the retail; but that its products, like those of a steel works or a cotton mill, are the raw material from which other works or factories produce their finished goods.

Works engaged in heavy trades are generally situated close to a railway, so that they may have siding accommodation with the facilities of loading and unloading directly to or from the railway trucks. Another determining factor in the question of the site is the price of land, and there is a tendency to build works away from the towns where land is dear and rents are high. But even then the place selected should be one well served by railway; and if facilities for carriage by water are available as well, so much the better. In all establishments to which we give the name of works, machinery is much in evidence. The motive power for heavy machines is commonly steam; but electric and hydraulic power may be used for special purposes. In lighter trades, the gas engine may be found, or electric motors fed with current from a town or city main. The advantages of machinery for cheapening processes, and for supplying articles that could not be produced without it, have led to its exploitation on a

large and increasing scale, with the result that productive processes tend more and more to come under the control of bodies that command large capital resources. Wealthy companies have become conscious of their ability to exercise a regulative influence on market prices, and they have sought by extensive amalgamations to save wasteful competition amongst themselves.

A works very often comprises different workshops in which different stages of the manufacture are carried through, *e.g.*, moulding shop, smiths' shop, machine shops, erecting shop, and paintshop. There may be distinct works under the same ownership for independent processes. A high degree of efficiency, and therefore a cheapening of the product, results from the extensive division of processes, and from the standardizing of the products and of parts. Where the final output of a works consists of machinery constructed out of many parts, it is important for the progress of the different parts through the different shops and processes to be so planned, that all the parts shall not fail to arrive at the assembling shop by the time they are needed there. Delays for want of constituent parts mean waste of time and consequent addition to the cost of production.

A works' organization would include time-keeping; the calculating of wages on a time, piece-work, or other basis; and the apportioning of the wages to the various jobs on hand. It would include a buying department, and a stores department from which all stock materials would be given out as required record being kept of the jobs to which they should be charged. Closely connected with the time and wages office would be the costing office, for ascertaining the costs of all work completed, and for estimating the prices to be quoted for work in prospect. In many undertakings, a drawing office would be a necessity for the preparation of working drawings to be followed in the shops, and of drawings to be submitted along with quotations to prospective customers. In some trades a chemical or a testing laboratory would be indispensable.

5. **Seeking and Keeping Customers.**

(1) *Salesmen.* Every business must maintain its connection and extend it if it can. To procure and send on orders most manufacturers and wholesalers, and even some retailers, keep a body of travellers on the road, or of selling agents located at suitable points. Travellers are commonly paid by a fixed salary with an added commission on the value of the sales they effect, and possibly an allowance for expenses. Agents are more usually paid by commission only. An agent may represent several manufacturers of different kinds of goods. He finds his own office and staff, and pays his expenses himself. Travellers and agents usually take orders by showing samples which they carry about with them on their rounds.

(2) *Advertising.* For this purpose of keeping in touch with past customers and of getting into touch with new ones, it is the practice of many business houses—manufacturing, wholesale, and retail—to issue catalogues of their goods, to display posters in public places, or largely to make use of the periodical press for advertising their goods or services. Where catalogues and advertisements are a big feature of the business, a staff of compilers or copy-writers will be required. Then lists of names will be kept of persons to whom catalogues will be addressed and posted regularly; and records will be kept of spaces ordered and used in publications. Under this head should be ranged, as a subtle but effective form of advertisement, the efforts made by retailers, big and little, to impress the public by a fine array of well-dressed windows, by an imposing or pretentious frontage, and by the luxuriance and comfort to be found within their premises.

(3) *Patterns and Samples.* The activities already named have, in many trades and industries, to be supplemented by the issue of patterns or samples of the goods offered for sale. The preparation of patterns or samples may need a separate staff again, which would be in close contact with the *Inquiry Department.* This last would be entrusted with the duty of answering all applications for prices; or for offers of, or information about, the wares that the business could supply.

If would be part of the duty of the inquiry department not to let slip out of view those quotations that had not resulted in orders, but to endeavour to turn them into orders by "following up" its offers in good time; and by seeking to give fuller information, or to modify prices, or to meet more exactly any special needs of the inquirers.

6. Correspondence.

(1) *Opening the Mail.* Incoming letters should be opened and sorted under the immediate supervision of a principal, or of some responsible person. Formal communications such as circulars, invoices, statements, remittances, and orders received, might be passed on without delay. Others, such as acknowledgments of orders given, offers or negotiations of special kinds, would probably be retained for the principal's scrutiny and perhaps inquiry. Letters of more importance still, *e.g.*, complaints from customers, reports from travellers, should receive the personal attention of a partner, manager, or managing director. In the case of a public company, transfers of and correspondence about shares, and all communications to go before the board of directors, would be handed to the secretary. The head of each department—buyer, cashier, works' manager, or whoever he might be—should be held responsible for adequate attention being given to all letters that concern the department in his charge.

(2) *The Correspondence Staff and its Duties.* It is usual in the organization of office work to have a correspondence staff under a competent head for dealing with all letters to customers. Before writing a letter this department would consult the selling department affected, and would base its letter to the customer on the draft reply that the selling department made. When inquiries and orders concern more than one department, extracts from the inquiries and orders would be made for each department interested. In some classes of business, original documents are not allowed to leave the offices, and every letter sent out by the business, whether to a customer or not, is dealt with by the office staff. In further considering the work of the correspondence department, let

us keep in mind the four following divisions of its duties: (*a*) composing and dictating letters; (*b*) "taking down" and typing them; (*c*) closing and despatching them; (*d*) preserving letters received and copies of those sent out.

The composer or dictator will first run through all the letters he has just received. Next, he will look into matters requiring investigation, and he will decide what answers to give in cases that require reply. When the correspondence originates with him, he will settle in his mind, first, what inquiries, requests, or statements of information he intends to make. His decisions will not infrequently entail the exercise of careful thought and sound judgment. Then, as early in the day as possible, and as many at one sitting as he can give, he will dictate his letters to a shorthand-typist. It will be the duty of the typist to type the letters in duplicate (unless more copies than one are needed); to type envelopes for them; and, say by a fixed time in the afternoon, to bring the originals for signature and the duplicates for initials. The dictator, before signing, should read the letters through, and have alterations made if necessary. Some offices use an instrument called the *dictaphone* as an intermediary between dictator and typist. Letters are dictated into this machine in the same way as a message is spoken into the telephone. The instrument, like a gramophone, retains what is said and reproduces the spoken words to the typist as and when required.

After the letters are signed, care must be taken to see that all letters and enclosures are put into their proper covers. This work may be part of the duties of the correspondence or typing staff; but no rule applicable to all circumstances can be laid down. Cheques, for example, would not be likely to leave the cashier's office before enclosure. Finally, the carbon copies kept of outward letters and, where these are replies, the relative inward communications along with them, should be filed away in the manner explained in Chapter III.

7. **Statistics of Results** play an important part in business control—so important a part that they claim the next chapter to themselves.

CHAPTER VIII

FIGURES AND FINANCE

. **Prices and Profits.**

(1) *The Manufacturer* ascertains his costs by adding together for each article or set of articles produced:

(*a*) The values of the various materials and stores used in the making of the product.

(*b*) The wages paid for work done directly upon it.

(*c*) A fair estimated share of all the other expenses and standing charges incurred in the running and management of his works, and in the selling and delivery of his goods.

Heads (*a*) and (*b*) make the ***Prime Cost;*** head (*c*) is called the ***Oncost***; and the three together are the total cost. If the manufacturer is engaged on distinct jobs, he keeps a separate cost account of each, debiting each account weekly with the charges under the several heads. If his work consists of producing a single commodity, such as coal, he makes one costing for the whole of the output of a period, say a month, and he works out the cost to so much for every ton, or other unit, of the output. If he produces several grades or kinds of a commodity, as different makes of woollen cloth, he costs the whole of one kind manufactured at one time.

For profit he would add a satisfactory percentage to the full ascertained costs. But, should selling prices be fixed at lower figures by competitors more fortunately circumstanced than he is for materials or machines, he would have to add just so much profit as he could get in competition with them, so long as the ruling prices enabled him to keep his works running without loss. And, whether his profits are good or bad, they are likely to vary according as the demand for such goods as his, or the available supply, forces the market prices up or down.

(2) *The Trader*, whether he be wholesale or retail, has less trouble with the computation of his prices. To him the cost

of an article is simply what he pays for it when he buys it. He arrives at the selling price by adding a pre-arranged percentage to the cost. But, if a shopkeeper buys a pair of boots for 13s. 3d. and sells them at 18s. 6d., the difference between the two prices is not all clear gain. He has the wages

TRADING AND PROFIT AND LOSS ACCOUNT,
for the Year ended 31st Dec., 19--.

	This year		Last year			This year	Last year
	£	%	%	£		£	£
Stock at Jan. 1	9,800			8,900	Sales . .	25,000	24,180
Purchases .	18,500			19,160	Stock at Dec. 31	9,500	9,800
Gross Profit, carried down	6,200	24·80	24·48	5,920			
	34,500			33,980		34,500	33,980
Wages . .	2,100	8·40	8·06	1,950	Gross Profit, brought down	6,200	5,920
Rent & Rates	630	2·52	2·61	630			
Lighting and Heating .	300	1·20	1·20	290			
Stationery and Printing .	240	0·96	1·03	250			
Carriage .	290	1·16	1·24	300			
Sundry Expenses	900	3·60	3·39	820			
Bad Debts .	80	0·32	0·41	100			
Depreciation .	120	0·48	0·54	130			
Income Tax .	280	1·12	1·08	260			
Total Expenses	4,940	19·76	19·56	4,730			
Net Profit .	1,260	5·04	4·92	1,190			
	£6,200	24·80	24·48	£5,920		£6,200	£5,920

of his assistants to pay, the rent and rates of his shop, electric light, and many other bills. The percentage he adds to the purchase prices of his goods must be enough to more than cover the expenses of selling them. *Gross Profit* is the name he gives to the difference between the purchase and the selling price; and the aggregate of his gross profits on all the goods he sells must be sufficient, not only to meet all the charges he incurs in effecting his sales, but to leave something over for

himself. What is left for himself he calls *Net Profit*. The trader expects that his net profit will be large enough to recompense him for his work in managing the business and, in addition, yield him on the capital he has put into the business as good a return as he could get from the same capital invested outside.

(3) *The Profit and Loss Account.* To discover the gross and net profits made by them, business men prepare a Trading and Profit and Loss Account at the end of every six or twelve months' trading. The account is drawn up in a form like that on page 80, and it will be noticed that the figures of the preceding year are included for comparison. The percentages of expenses, as well as those of profits, are worked out on the *turnover*, that is, on the total sales of the period.

When the trader fixes his selling price, he determines beforehand the gross profit to be obtained on each article for sale. Fixing a profit beforehand and realizing the profit so fixed are, however, different things. Some of the articles may never sell; others it may be necessary to dispose of at a sacrifice. The Trading Account shows at the end of the year what gross profit has been actually realized. The relation of the different figures to one another may be brought out more plainly by re-arranging them thus—

	£	£
Sales for the year, at selling price		25,000
Stock at beginning of year, at cost price . .	9,800	
Purchases during the year, at cost price . .	18,500	
Cost of goods available for sale	28,300	
Stock at end of year, at cost price . . .	9,500	
Cost of goods actually sold during the year .		18,800
Gross profit for the year		6,200
Total expenses incurred during the year . .		4,940
Net profit for the year		£1,260

Should the expenses ever come to more than the gross profit, the trader would make a loss, of course. Stocks at the beginning and end of the trading period are ascertained by

career. But the compilation of statistics can easily be carried beyond the point of greatest usefulness.

To begin with, statistics should cover *a period of some extent*. Returns made too frequently, such as daily reports of inquiries, orders, receipts, sales, and so on, are of little service. Business never flows on steadily day by day, and for that reason the comparison of day with day cannot give a true view of the general tendency of trade to quicken or slacken over a period. Weekly returns, without delaying the information they are intended to supply, allow a little more time for the daily fluctuations to average out and disclose the general trend. Monthly returns present a truer average still; but a month may be too long to wait. The return may be too late for action to be taken upon it with success.

Again, statistics should deal with *a subject-matter of some volume*. To learn, for example, that a provincial railway last year carried three royal personages, as against none the year before, and one the year before that, is of no practical value. The statistics are too meagre to have any bearing on the prosperity of the line. But to be told that so many excursion tickets of so much money value were issued in the chief holiday season of each of three successive years is to be put in possession of some leading facts about a large section of the railway's traffic; facts that would guide the policy adopted towards an important source of revenue. That so many persons per thousand died in Mudhampton in each of a number of consecutive years gives a reliable view of improvement or deterioration in the health conditions of that city's life. To show what deaths, if any, occurred each year in a single house would be of no use at all; nor even to make a return of the deaths in one street. The area of observation would be too limited to allow of one's drawing, from the happenings within it, any reliable conclusion about the prevalent condition of the populace.

Further, statistics should take *a simple form*. They must not be so abundantly interspersed with detail that "wood cannot be seen for trees." Most minds are rather limited in

their grasp, and cannot take in a blurred mass of figures, let alone store it up in memory. An outline, a skeleton, a presentation of the main features, a summary clear and condensed, is much more easily laid hold of and understood. The leading characteristics of any subject, once grasped thoroughly, serve as a framework into which minor intricacies may be fitted or not as interest or necessity impels. Notice Tables I and II (page 86). They both deal with the same four months' sales, and, though No. I takes the wider survey in that it adds the comparison of the previous year, yet its simpler content is more easily mastered than the multiplicity of figures in No. II.

(2) *Tabular Statistics.* The tables on pages 86 and 87 speak for themselves. Other subjects for similar treatment are Purchases, Wages, Inquiries with orders received therefrom, Goods returned by customers. These tables are set out departmentally, and for simplicity the figures are given in round pounds only. Shillings and pence are better neglected.

(3) *Statistics by Chart.* Chart I, on page 89, depicts the rise and fall in the sales of a business during the year 1920, as compared with the rise and fall during the preceding year. It illustrates again what we have just said about simplicity and absence of unilluminating details. But its greatest value lies in its pictorial appeal to the eye and in the quickness and vividness with which the deviating line imprints upon the mind the changeful course of the year's trade. This chart gives the same information as Table V (page 88), and we receive a much more vivid impression of the fluctuations (though not of the final result) by a glance at the chart, than by a prolonged inspection of the figures in the tabulated form.

Those professional persons that undertake to tell our futures from the markings on our palms have much to say about the "line of life." More interesting, and more reliable, as a study is the line of the business life, sketched as in Chart II on page 90.

TABLE I.—MONTHLY DEPARTMENTAL SALES.

1919					Departments	1920				
Total to date	April	March	Feb.	Jan.		Jan.	Feb.	March	April	Total to date
£	£	£	£	£		£	£	£	£	£
15,769	6,024	3,251	3,589	2,905	A	3,151	3,604	4,642	6,088	17,485
20,801	5,915	5,774	5,243	3,869	B	5,378	5,885	8,707	8,064	28,034
10,158	2,346	2,543	2,687	2,582	C	3,206	4,380	2,687	2,211	12,484
5,610	1,453	1,086	1,485	1,586	D	1,988	2,070	1,421	1,396	6,886
6,881	1,750	1,271	1,698	1,662	E	1,816	2,056	1,630	1,609	7,201
2,983	1,099	490	671	733	F	1,471	1,320	693	890	4,474
10,807	4,359	2,081	1,993	2,374	G	2,142	2,011	2,308	2,888	8,349
5,431	1,372	2,275	830	854	H	1,247	1,605	1,880	1,166	5,898
77,950	24,318	18,771	18,196	16,665	TOTALS	20,410	22,831	23,968	24,502	91,811

NOTE.—A separate return like this would be prepared at the end of each month.

TABLE II—WEEKLY DEPARTMENTAL SALES.

Week ended	Total	Departments								Week ended
		A	B	C	D	E	F	G	H	
1920	£	£	£	£	£	£	£	£	£	1920
Jan. 7	3,589	663	691	532	349	295	291	484	284	7 Jan.
14	4,945	720	1,390	723	497	491	384	486	251	14
21	5,642	827	1,672	914	575	489	328	527	810	21
28	4,915	696	1,245	793	474	448	337	552	370	28
31	1,319	245	380	244	104	90	131	93	82	31
	20,410	3,151	5,378	3,206	1,999	1,816	1,471	2,142	1,247	
Feb. 4	2,776	408	851	494	221	240	101	219	242	4 Feb.
11	5,901	894	1,212	1,246	575	545	471	534	424	11
18	5,587	922	1,312	1,153	532	538	342	515	273	18
25	5,419	819	1,431	987	470	461	274	492	385	25
29	3,248	461	1,079	500	272	272	132	251	231	29
	22,931	3,604	5,885	4,380	2,070	2,056	1,320	2,011	1,605	
2 mths.	43,341	6,755	11,263	7,586	4,069	3,872	2,791	4,153	2,852	2 mths.
Mar. 3	2,720	676	695	267	170	206	105	423	178	8 Mar.
10	5,270	861	1,978	663	329	380	146	385	528	10
17	5,254	892	1,771	685	318	356	147	551	484	17
24	5,607	1,001	2,553	554	286	298	125	476	213	24
31	5,217	1,112	1,710	518	318	889	170	478	527	81
	23,968	4,642	8,707	2,687	1,421	1,630	693	2,308	1,880	
3 mths.	67,309	11,397	19,970	10,273	5,480	5,502	3,484	6,461	4,732	3 mths.
April 7	4,775	1,318	1,343	336	362	399	203	554	260	7 April
14	5,673	1,465	2,009	481	351	888	220	527	232	14

NOTE.—This table would be continued to June 30, and for comparison the corresponding table for 1919 would be consulted.

TABLE III—ESTIMATED MONTHLY STOCKS—1920.

Departments	Actual Jan. 1	Estimated						Actual Jun. 30	Av'ge for six mths.	Departments
		Jan. 31	Feb. 29	Mar. 31	Apr. 30	May 31	Jun. 30			
	£	£	£	£	£	£	£	£	£	
A	8,321	8,748	9,603	8,995	8,527	8,473	8,184	8,165	8,690	A
B	18,495	18,911	20,056	19,084	18,035	18,154	18,032	18,101	18,691	B
C	9,566	9,484	9,680	9,217	9,009	8,907	8,846	8,870	9,248	C
D	5,704	5,814	6,178	5,933	5,653	6,015	5,819	5,778	5,868	D
E	5,119	5,596	5,951	5,461	5,012	5,086	4,853	4,844	5,295	E
F	4,886	5,033	5,354	4,812	4,805	4,523	4,356	4,392	4,829	F
G	6,055	6,290	6,612	6,279	5,997	5,874	5,863	5,836	6,135	G
H	4,802	4,887	5,419	5,184	4,941	4,885	4,612	4,600	4,960	H
TOTALS	62,948	64,763	68,853	64,965	61,979	61,917	60,565	60,586	63,716	TOTALS

NOTE.—The average here is taken on the basis of the actually ascertained stocks at the beginning and the close of the six months, together with the estimated stocks at each of the five intervening month-ends. For comparison, the corresponding table for 1919 would be consulted.

TABLE IV—SHOWING HOW THE MONTHLY ESTIMATES OF STOCK ARE MADE.

DEPARTMENT.	A	B	C	D
Rate of gross profit earned in preceding year	25%	30%	20%	33⅓%
	£	£	£	£
Stock at Jan. 1, 1920	8,321	18,495	9,566	5,704
Purchases for the month	2,827	5,896	1,916	1,401
Transfers from other departments, at cost	67	221	694	130
Gross Profit estimated on the sales	788	1,613	641	666
	12,003	26,225	12,817	7,901
Sales for the month	3,151	5,378	3,206	1,999
Transfers to other departments, at cost	104	1,936	127	88
Stock, estimated, Jan. 31, 1920	8,748	18,911	9,484	5,814
	12,003	26,225	12,817	7,901

NOTE.—The estimated stock at the end of each month is the figure required in order to balance when all the other figures for a department have been filled in.

TABLE V.—MONTHLY SALES FOR THE YEARS 1919–1920.

Month	1919	1920
	£	£
January	16,665	20,410
February	18,196	22,931
March	18,771	23,968
April	24,318	24,502
May	21,623	25,117
June	19,075	22,020
July	20,189	18,318
August	17,546	16,854
September	18,640	17,539
October	18,201	19,147
November	18,733	20,091
December	19,002	19,145
TOTALS	£230,959	£250,042

3. **Financial Control.** A business has at its disposal, as a rule, only a restricted amount of capital. The money that has been sunk in the purchase of land, buildings, machinery or other equipment, or in the purchase of goodwill, is called its "fixed capital." What remains is "working capital," and is put into stocks of goods or is absorbed in the book debts that accumulate as goods go out to customers on credit. It is usual, however, for a business to buy on credit. In that case the working capital is increased by the average value of the purchases that are unpaid at any time. An important duty of the controller of the business is to see that the commitments are not allowed to exceed the margin of capital that will be available to meet them as they become due; or, conversely, that too much capital is not temporarily locked up in stocks that are not immediately saleable, or in book debts that cannot soon be turned into cash. A business may be working at high pressure, turning out plenty of stuff, making good profits; yet it may be overtrading. The very volume of the orders it is handling may be bringing it to grief, through insufficiency of working capital. A man cannot set up in

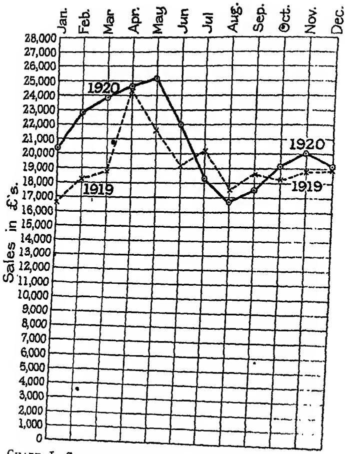


CHART I—SALES FOR 1920, WITH COMPARISON FOR 1919.

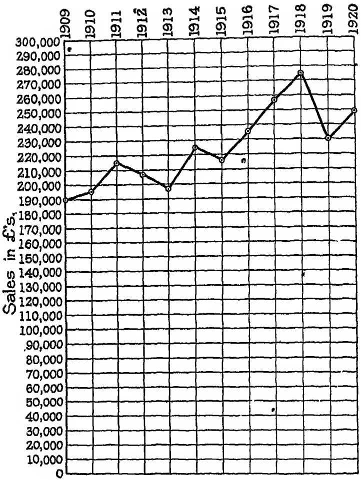


CHART II—YEARLY PROGRESS OF A BUSINESS

business without money to start with. Even with money in hand he cannot start a bigger business than his money will suffice for; nor can he extend a growing business more quickly than his capital increases. Without sufficiency of capital he could not lay in extensive equipment and stocks, nor could he allow credit to the numerous customers that a big business would have. The capital of a business may be increased in various ways, some of which will be dealt with later; for example, by leaving profits in the business, by borrowing, by admitting a partner with money, or by getting the public to subscribe new capital in the form of shares or debentures.

In commerce risks must be taken, for, here as in other affairs, "faint heart never won fair lady." But the spirit of adventure had better be tempered with caution. Credit should be allowed with circumspection so as to obviate bad debts if possible; and long credit may have to be discouraged, or the terms of sale so framed as to induce prompt payments. The rise in prices that was brought about by the war has caused much more capital than formerly to be absorbed in stocks and book debts. Where large stocks are held the possibility of loss, should prices fall, must not be overlooked. Then stocks that are not selling as they should must be cleared at cost, or even less, so that the capital they represent can be put into goods that will sell and bring in profit.

A wary watchfulness should be maintained over all orders given out so that even good stocks shall not accumulate beyond the need for them. On the one hand, a man who holds himself out as a dealer in certain goods, ought to have stock sufficient to supply such goods without delay when a customer asks for them. To reply that he regrets the goods are out of stock, that he hopes to have more in soon, but that he cannot say exactly when, is, in ordinary circumstances, a bad testimonial for himself. On the other hand, stocks should be kept as small, and turned over (sold out and replaced) as quickly as the prompt satisfying of customers' wants will permit. We have seen how to estimate the stocks month by month throughout the year. With these estimates

in our possession, a very slight calculation gives us the average stock during the year. We have seen also how to ascertain the cost price of the year's sales. By dividing the average stock into the cost of the sales, we get the number of times a year that the stock is turned over. Some houses hold their buyers down to turn stocks over so many times in the year. That is, for a certain volume of sales, a buyer is allowed to have only a certain average stock; and interest on the capital sunk in the stock is taken into account in determining whether his department pays or not. To turn over capital as often as possible is one of the secrets of being able to sell at prices acceptable to customers, and of making at the same time a good rate of profit on the capital employed.

CHAPTER IX

CHEQUES

1. **Definition.** A cheque is one form of a bill of exchange and comes under the provisions of the Bills of Exchange Acts. 1882 and 1906. The Act of 1882 (Section 73) defines a cheque as " a bill of exchange drawn on a banker payable on demand." The statutory definition of a bill of exchange will be found in Chapter XI. For present purposes we may say that—

> A cheque is a written order, addressed to a banker by one of his customers, and requiring the banker to pay on demand a stated sum of money to a person named, or to bearer.

A cheque is not legal tender (see a later chapter); and payment by cheque may be refused without prejudicing one's claim to be paid in legal form. We shall learn very soon that there is some little risk of value not being obtained for the cheque from the banker to whom it is addressed. It would therefore be unjust if a creditor were compelled to take any cheque offered to him by a debtor.

2. **Form of a Cheque.** Every cheque drawn or circulated in the United Kingdom must bear a twopenny revenue stamp.

Specimen No. 1.

27/C 392014. LONDON. *1st Jan., 19...*

The Midland Bank, Limited,

5 THREADNEEDLE STREET, LONDON, E.C.2

2d

PAY MESSRS. ADAM BROWN & CO., *or Order,*

Two hundred and one pounds ten shillings.

T £201 : 10 : 0. CHRISTOPHER DUNN.

The banks supply books of cheque forms already printed and stamped, the charge made being for the stamps only. Each cheque is attached to a counterfoil, and on this the name,

date, and amount of the cheque should be recorded before the cheque is torn from the book. The banks supply their own forms as a preventive of fraud, and of the inconvenience

Specimen No. 2.

THE HILL TOP COLLIERY COMPANY, LIMITED.
BARNSLEY. *10th Jan., 19...*

NATIONAL PROVINCIAL BANK, Limited,
BARNSLEY.

2*d*.

PAY MESSRS. KERSHAW, SMITH & CO., *or Order,*
One hundred and twenty-seven pounds 15/6.

For and on behalf of
THE HILL TOP COLLIERY CO., LIMITED,
JOSHUA HILL
SAMUEL TOPPING } *Directors.*
C £127 : 15 6 B. C. COOK, *Secretary.*

they would experience were their customers to draw cheques in all forms and all sizes.

3. Orders for Money that are not Cheques. If the wording is such that payment is made to depend on the fulfilment of some condition, the order is not a bill, and therefore not a cheque. For this reason the form on page 95, though usually called a cheque, does not comply with the legal definition, payment being made conditional on the receipt "being presented through a banker, duly stamped, signed and dated."

Again, unless it is payable on demand, the order cannot be a cheque, though it may be a bill of exchange of another kind. But where, as is usual in cheques, the date of payment is not expressed, the order is payable on demand (Section 10).[1] Further, the order is not a cheque unless it is addressed to a bank. Nor does it come within the definition where drawer and drawee are the same person, as in a draft by a branch

[1] This and following references under the subject are, if not otherwise stated, to the Bills of Exchange Act, 1882.

bank on its head office. The fact of the order being expressed as payable to the person making the order does not, however, prevent the document from being a cheque or a bill.

LONDON, MIDLAND & SCOTTISH RAILWAY.
MANCHESTER. *19th April, 19...*

The Manchester and County Bank, Limited,
MANCHESTER.

*PAY*______________________________________

the sum of __________________________________ 2*d*.

on the receipt hereunder being presented through a banker duly stamped, signed and dated.

__________________*Secretary.*

Received from the LONDON, MIDLAND & SCOTTISH RAILWAY COMPANY *the sum named above.*

*Signature*________________

*Date*________________

This receipt must be signed in the same form as an endorsement.

4. **Date and Amount.** It is understood that a cheque should be dated; and the bank that was asked to pay an undated cheque would probably return it to be completed before payment was made. Nevertheless, a cheque is valid though not dated (Section 3). By Section 20, so long as the incomplete cheque is stamped and signed, the omission of any material particular—as, for example, the date or the amount—is taken as giving the rightful owner apparent authority to fill the omission in. A cheque is said to be ***post-dated*** when it bears a future date. Until the date named is reached, the holder should not send the cheque for collection. The banker has no authority to charge the cheque to the drawer's account before that date; therefore he will not pay earlier. Nor should the receiver of a post-dated cheque pass it on in the interval to anyone else. Putting it into circulation would be using it as a bill of exchange not payable until a future date.

For an amount over £10 the twopenny stamp is insufficient except when the bill is payable on demand.

The amount of a cheque is usually expressed in both words and figures, the object being that the one will elucidate the other where, through bad writing, there would be uncertainty about one alone. When they disagree, the banker may take the words as correct (Section 9), and pay on them; but, here again, before making payment he will most likely ask for the discrepancy to be rectified. Sometimes in a case of this kind, the holder of the cheque asks for the smaller amount, and payment is made accordingly.

5. Parties to a Cheque. The *drawer* is the person that makes and signs the order contained in the cheque. He has an account at the bank to which the cheque is addressed, and it is against the funds he has there that the cheque is drawn.

The *drawee* is the party to whom the order is addressed, that is, the bank on which the cheque is drawn.

The *payee* is the person named by the drawer as the party to whom payment is to be made. It is to the payee that the drawer hands or posts the cheque. In specimen No. 1, ADAM BROWN & Co. are the payees. The drawees are the MIDLAND BANK, LIMITED, and the drawer is CHRISTOPHER DUNN.

Endorser and *endorsee* are also names for parties to a cheque. Their positions are explained below. A "party" is any person, or body of persons, that takes a direct *part* in the cheque transaction.

6. Bearer and Order Cheques. It is of the nature of a cheque that it may, under certain conditions, pass from hand to hand (see under head 13, Negotiability), carrying its value with it, as a bank note does. A cheque drawn payable to "So-and-so, or bearer" is termed a *bearer cheque*. It may be passed on from one person to another without the endorsement of the payee or of any subsequent holder (Section 31). Yet, when such a cheque is taken from anyone other than the drawer, it is better to insist, as a condition of the taking of the cheque, that the giver shall endorse it. The endorsement

would consist of or contain the signature of the giver. It would be evidence of his having been a party to the cheque, and would cause him to be liable for the amount should the cheque turn out to be valueless (Sections 55, 56, and 58).

If a cheque is drawn payable to "So-and-so, or order," it is called an *order cheque;* but in this case the payee's endorsement is required before he parts with the document. The payee of a cheque that reads, "Pay A B Fifty pounds," has, if he wishes to do so, the same right to pass it on after endorsement as he would have if it read "Pay A B or order, Fifty pounds."

7. **Endorsement.** By endorsing a cheque, the payee becomes an *endorser;* and, if named in the endorsement, the person to whom he passes the cheque is his *endorsee.* The first endorsee may endorse to a second; he to a third, and so on. Still, as a cheque is payable on demand, the payee's safest course is to have it presented at once for payment at the bank on which it is drawn. When, however, the payee or an endorsee of an order cheque does hand it on to another person, the necessary endorsement operates as—

> the payee's or endorsee's authority to the bank for payment to be made by the bank to the person to whom the cheque is handed over.

The endorsement of the payee is the "order" of his named in the drawing of the cheque. Endorsements are written on the back of the cheque parallel to the narrow ends.

A *special endorsement* is one that names the endorsee to whom the cheque is given, *e.g.*—

Pay EDMUNDSON & FOWLER, *or order,*
ADAM BROWN & CO.

On cheques, *blank endorsement* is much the more common form. It is simply the signature of the payee or of an endorsee, and it does not name the party to whom the cheque is transferred.

By Section 34, blank endorsement causes a bill (or cheque) payable to order to become payable to bearer, with the result that further endorsement is not compulsory when the bill

is handed on again. With a special endorsement, the bill is, on the other hand, still payable to order, and needs to be endorsed by the endorsee when he parts with it to someone else. The holder of a bill may complete a blank endorsement, and so convert it into a special endorsement, by filling in above the last endorser's signature an instruction to pay either to himself or to some other person. A special endorsement overrides the effect of a preceding endorsement in blank; but, if the bill was ***drawn*** payable to bearer, special endorsement will not convert it to an order bill. A cheque drawn to "Wages or order" is treated as if payable to "Self or order." The drawer is also the payee, and the bank requires him to endorse. When the payee asks in person at the counter of the drawee bank for payment of a cheque to order, his endorsement is not required by law, as it is not a question then of giving the bank authority to pay another person. The custom of bankers, however, is to demand the payee's signature on the back of the cheque before the payment is made. The signature shows that he, and not someone else, has had the money.

8. **Form of Endorsement.** (1) The first signature endorsed on a cheque or other bill payable to order should correspond to the name given to the payee on the face of the document. Each later signature must correspond to the endorsee's name given in the special endorsement, if any, immediately preceding. The banks nevertheless pass "R. BROWN" as sufficient endorsement for ROBERT BROWN, or for RICHARD BROWN; and "W. GREEN" as sufficient for WILLIAM, or WALTER, or WILFRID GREEN. "OWEN GRIFFITHS" would, of course, be passed as the signature of a payee or endorsee described as "O. GRIFFITHS"; but "B. DAVIES & SONS" does not correspond to "DAVIES & SONS," and neither "G. ROBERTS" nor "D. ROBERTS" would be a good endorsement for "G. D. ROBERTS."

(2) Where the payee or an endorsee has been incorrectly named he should endorse in the manner he has been named in. He may then add his correct signature if he thinks fit

(Section 32); but, except in the case mentioned below, he is not obliged to do so. Thus, if PETER ROBERTSON is described as "PETER ROBINSON," he may sign the endorsement—

either (*a*) "Peter Robinson"—without anything more;
or, (*b*) "Peter Robinson,
Peter Robertson,"

the latter being the name given to him on the cheque, with his correct name added.

By Section 63 of the Companies (Consolidation) Act, 1908, the correct name of a limited company must appear in (amongst other places) all endorsements of the company. Therefore, a cheque payable to "BROWN, BAGSHAW & Co." when the full name of the payees is "BROWN, BAGSHAW & Co., LIMITED," should be endorsed in the following form—

BROWN, BAGSHAW & Co.,
per pro. BROWN, BAGSHAW & Co., LTD.,
EBENEZER BROWN, *Director.*

(3) "MISS MARY MORGAN" is not a signature, but a form of address. The lady so described should endorse "MARY MORGAN" only. And the same rule applies to other forms of address. CAPTAIN JOHN T. LEWIS, for example, may sign—

"JNO. T. LEWIS, *Capt., R.F.A.*," or simply "JNO. T. LEWIS."

When MARY MORGAN has married and receives a cheque made payable to her in her maiden name, she should endorse with the form of signature—

MARY EVANS,
née MORGAN.

On a cheque where the payee is a married woman described by her husband's name, as "MRS. JOHN BROWN," or a widow described in a similar way, the endorsement should be—

JULIA BROWN,
Wife of JOHN BROWN.

or JULIA BROWN,
Widow of the late
JOHN BROWN.

(4) When a payee cannot write he endorses by making a cross, the endorsement being completed by a witness in the manner shown below. This is called the signature of a "marksman."

his DAVID × BLACK mark.	*Witness:* DANIEL WHITE, 40 Pink Street, Yellowtown.

(5) Cheques made payable to two or more persons should be endorsed by both or all payees, as the case may be, subject to the exception about to be named. If a cheque is drawn in favour of "MISSES MARY AND SARAH GRUNDY," the endorsement should be signed—

"MARY GRUNDY,
SARAH GRUNDY."

But, should the second payee have been authorized by the first to sign on her behalf, the endorsement—

"*For* SELF AND MARY GRUNDY
SARAH GRUNDY."

would be regular. Had it happened that the cheque were drawn payable to "MARY GRUNDY OR SARAH GRUNDY," the signature of *either* would have been all that was needed.

9. **Signing for another Person.** (1) A person may sign the name of another if the other person has authorized him to do so; but when one person endorses or draws cheques for his employer or his principal, *the procuration form of signature* is the one to use, thus—

per pro. HAMILTON & MURRAY,
DOUGLAS M. YOUNG.

The writer's own surname must appear in full. HAMILTON AND MURRAY should notify their bankers exactly what authority as regards signing has been given to MR. YOUNG, and should furnish a specimen of his signature.

(2) *The Signature of a Firm*—that is, of a partnership, as distinct from a company—is the firm-name written by any

one of the partners. Cheques drawn by the firm known as "WESTBROOK, WILKS & WATKINSON," would be signed "WESTBROOK, WILKS & WATKINSON," whether the signature was in the writing of GEORGE WESTBROOK, RICHARD WILKS, or MATTHEW WATKINSON, who are the partners making up the firm. The reason is that, unless the bank or other parties to the cheques have notice of the partners' agreement to the contrary, every partner is presumed to be an agent with power to bind the firm and his fellow partners by "any act for carrying on in the usual way business of the kind carried on by the firm."

(3) *The Signature of a Company* or a corporate body is made by an officer or by officers of the body, and, in this case, the designation of each should be added. For the drawing of a company's cheques, a common form of signature is that shown in Specimen No. 2, at the beginning of this chapter. For endorsement, the signature of the secretary, or of one director, is usually sufficient. For both purposes, whatever the form of signature, it must agree with the instructions given by the directors to the company's bankers.

(4) *Signature of Executors*. Suppose REUBEN BENNETT has recently died. As soon as the executors named in his will have been granted the probate of the will, they are at liberty to exhibit the probate to the bank as their authority to act for the deceased, and to draw and endorse cheques for his estate. They sign as his executors.

Example.

The Executors of REUBEN BENNETT,
M. SIMEON BENNETT,
REBECCA BOOTH.

Any one of the executors is, however, considered to have authority to act for all. He may sign for himself and the other or others, thus—

For SELF AND CO-EXECUTOR OF REUBEN BENNETT,
M. SIMEON BENNETT

Administrators sign in the same way as executors; but, in the case of trustees, all must act together and the signatures of all are necessary, *e.g.*—

For GEOFFREY GIBSON GOODMAN,
ARTHUR HILL
C. B. GILL — *Trustees.*
EDWIN MILL

(5) *Indication of Representative Capacity.* I. a person puts a signature on a cheque or bill for another person, and uses his own name, he should also give the name of the person for whom he acts, and be careful to indicate distinctly that he is acting for that person and not for himself. In—

DONALD BAIN,
Director, STEWART & GRAEME, LIMITED.

the last five words are merely a description of the writer of the signature. Signing in this way may make him personally liable as being himself the party to the bill. To escape personal liability, he should sign—

For STEWART & GRAEME, LIMITED,
DONALD BAIN, *Director.*

In the drawing of any cheque so signed, the form of signature must, of course, be that arranged between the customer and the bank. As explained below, the paying banker may be relieved of certain liability in connection with endorsers' signatures, and therefore not be concerned to know if these are genuine, so long as the endorsements are regular in form. In his scrutiny of the form of the endorsements, "per pro." is taken to imply authority to endorse. So is such designation as director, secretary, treasurer, or cashier, because the control of cheques received is commonly part of the duties of a person holding one of these positions. But if the endorser, instead of "per pro.", uses "for" without adding a designation, or adds a designation that does not imply authority to endorse (*e.g.*, works' manager, assistant secretary, or buyer), the paying banker has the right to question the form of signature. Where there is any suggestion of want of authority, he is justified

in asking for the signature to be confirmed. The cheque will usually have been presented through a collecting bank, and if it is their customer's signature that is challenged, they will be in a position to furnish the requisite assurance. As regards other parties to the cheque, whose title depends upon an agent's signature being authorized, it rests with them, unless they like to take the risk, to ascertain in all cases if the drawing or the endorsing of the cheque or bill is within the agent's authority.

As a rule, an agent has no power to delegate his authority. The following is therefore, on the face of it, an irregular form of endorsement—

per pro. THE HIBERNIAN TRADING CORPORATION, LIMITED,
per pro. TERENCE MULVANEY, *Secretary*,
DANIEL O'DOWD.

10. **Forged or Unauthorized Signatures.** By an important provision in Section 60 of the Act, a banker is relieved of liability if he pays an order cheque drawn on himself and bearing a forged or unauthorized endorsement; but the payment must be made in good faith and in the ordinary course of business; and the endorsement must be regular in form. It would be impossible for the banker to verify all the signatures endorsed on the cheques drawn on him and presented to him for payment. To be able to do that every banking office would need the means of recognizing immediately the handwriting of every person who at any time was the payee or an endorsee of a cheque to order issued by any customer of the bank. It should be noted, however, that this immunity from liability is given to the paying banker only, and only in respect of drafts on demand, or cheques. The general rule is that a forged or unauthorized signature is wholly inoperative (Section 24), and that no subsequent party can obtain a good title through such a signature, except as against another party whose conduct has been such as to preclude him from raising objection to the forgery.

As regards the banker again, the provision is limited to endorsement. It does not, therefore, extend to the signature

of the drawer of the cheque. If the drawer's signature is not the genuine signature of a customer of the bank, or one that the customer has authorized, the banker has received no order from the customer, and consequently has no authority to charge the amount of the cheque to the customer's account. When a banker fails to detect forgery in a drawer's signature, and as a result pays on the forged signature of a customer, he must bear the loss himself, unless he can show that the customer is guilty of contributory negligence.

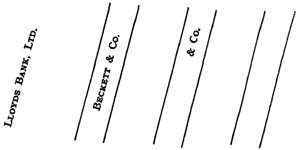
11. Alterations. Another form of forgery is the fraudulent raising of the amount of a cheque, say, from eight pounds to eighty, or from fifty to three hundred and fifty, by the clever insertion or alteration of words and figures. Section 64 enacts that where a bill is materially altered, it becomes void, except as against a party who has made, authorized, or assented to the alteration. Where, however, the alteration is not apparent, a holder in due course may claim the amount for which the bill was originally drawn. Should a genuine cheque for eight pounds be altered to eighty pounds, the paying banker would not be allowed to charge his customer any part of the amount paid, unless the banker were a holder in due course, or could show the customer's assent to the alteration, or could bring blame home to the customer by proving gross carelessness on his part. The drawer should not leave spaces by the filling up of which the amount of a cheque can be increased. To prevent forgery of this kind, a cheque, for example, for £48 10s. is sometimes marked across the face, "Under fifty pounds." Machines are also used to mark cheques or to fill in the amounts in such a way that alteration becomes extremely difficult or altogether impossible. In the absence of fraud, authority for, or assent to, any alteration usually takes the form of the drawer's initials to the alteration, or of the initials of each of the drawers, when there are more than one.

The printed words "or bearer" on a cheque may be deleted by the drawer, or he may alter the word "bearer" to "order," without the addition of his initials in either case. Endorsement of the payee would then be necessary. If, however, the

alteration is from " order " to " bearer," the drawer's initials must appear to show that the alteration was his; otherwise the payee's endorsement could be dispensed with, without evidence that this was the drawer's wish.

12. Crossed Cheques.

(1) *Meaning of a Crossing.* A crossing consists of the name of a bank written across the face of the cheque, or of two parallel lines drawn across the cheque with or without the words " and Co." between them, thus—



No. 1 *No. 2* *No. 3* *No. 4*

The crossing means that the banker on whom the cheque is drawn must not pay the money over his counter to anyone; but must either pay it to another bank which claims the amount for credit of a customer of that bank, or must credit it to the account of a customer of his own. Nos. 1 and 2 above, are called *special* crossings. They name the collecting bank to which payment is to be made. Nos. 3 and 4 are *general* crossings; they are left blank for the name of the collecting bank to be filled in afterwards. A cheque that does not bear a crossing is called an *open cheque*. Postal orders and money orders may be crossed and collected from the Post Office through a bank.

(2) *Object of a Crossing.* Payment of an open cheque may be obtained at the counter of the drawee bank. In this way

a thief may cash an uncrossed cheque, by forging the endorsement when endorsement is required; or without endorsing the cheque when it is payable to bearer. On the other hand, if the cheque were crossed, it would be necessary for him to pay it in to credit of a banking account. He could pay it in to credit of his own banking account if he had one; but he may not have one, as a banker will not open an account with a stranger without first making enquiry about his character. And if the thief had a bank account or succeeded in opening one, he would have to wait for his banker to collect the cheque, and would thus run the risk of discovery, before he could get hold of the money and abscond. Should the thief not have a banking account, he would need to seek out someone who had, in order to cash the cheque through him. A person who keeps a bank account is, however, likely to understand the risk of changing a cheque for anyone he does not know; and he would either refuse to change it or, if he decided not to refuse, he would take precaution against being defrauded. The crossing of a cheque, then, makes it difficult for a dishonest person to turn the cheque into cash, and makes it somewhat easier to trace him if he does.

(3) *Who may Cross a Cheque.* The drawer or any holder may cross a cheque either generally or specially; and any holder may turn a general crossing into a special crossing. The banker who is collecting a cheque may cross it. When it is already crossed to himself, and he cannot himself collect it, he may cross it again to his collecting agent; but crossings to two banks on the same cheque are not allowed in any other circumstances. Banks used to pay over the counter cheques on which the printed crossings had been cancelled by the addition of the words "Pay cash," initialed by the drawer. This practice is discouraged now. A crossed cheque, like any other, contains the drawer's signature which the forger can copy for the purpose of attaching apparent authority to his fraudulent cancellation of the crossing.

(4) *Banker's Liability on Crossed Cheques.* A banker who has *paid* a crossed cheque, otherwise than in accordance with

the crossing, is liable to the true owner of the cheque for any loss the latter may sustain in consequence (Section 79). But the true owner has no claim against a banker who, in good faith and without negligence, has *collected* a crossed cheque for a customer when the customer had no title, or had a defective title, to it (Section 82). And the Bills of Exchange (Crossed Cheques) Act, 1906, causes this last provision to apply though the collecting banker has placed the cheque to his customer's credit before he has himself received payment from the drawee bank.

13. Negotiability

(1) *Negotiable Instruments.* If a watch or a bicycle is stolen, and the thief sells it, the buyer cannot retain it as against the true owner. That the buyer has paid for the watch or bicycle gives him no title to it, for the thief who sold it him had none. The transaction is not a sale in reality, because a person cannot sell what does not belong to him unless he has authority from the owner to do so. But, if a shopkeeper takes a Bank of England note and gives goods in exchange, the shopkeeper can retain the note, even if it should turn out to be a stolen one, provided that, at the time of taking it, he had no knowledge of the theft. A Bank of England note is a document of a peculiar kind, and a cheque or any other bill of exchange, unless it contains a stipulation prohibiting negotiation, belongs to the same class as the Bank of England note. The peculiarity of these documents is that there attaches to them a quality called negotiability.

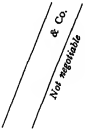
A negotiable instrument is one that may pass from person to person so that when it is taken in good faith and for value, without knowledge of any irregularity or defect, the person taking it acquires a good title to the document notwithstanding any want or defect, short of forgery, in the title of the person from whom he takes it.

We have already seen that a good title to a cheque cannot be acquired or given if the cheque is forged.

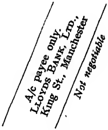
This characteristic of negotiability attaches to coin of the realm, to notes issued by the Treasury, to bank notes, to bills of exchange and promissory notes, and to certain Government

and other bonds given for loans and securing repayment to the bearers of the bonds. It does not attach to postal orders or money orders issued by the Post Office, nor to book debts when these are sold, nor to certificates of shares or stock issued in the names of registered holders, nor to merchandise of any kind, nor to land and buildings. As a general rule, the property in an article is distinct from the possession of it; so that even when value is received in exchange, the right of ownership cannot be passed on merely by delivering up possession.

(2) *Not Negotiable Crossings.* A bill may, however, contain words prohibiting its negotiation. For example, on a cheque that is crossed there may be added to the crossing the words "not negotiable." This takes away entirely the negotiable quality of the cheque. The words must not be understood to prevent the cheque's being transferred from hand to hand. Their effect is this: that a person taking a



No. 5.



No. 6.

cheque so crossed can neither acquire a better title to the cheque, nor give a better title to it, than the person had from whom he takes it (Section 81). In Specimen No. 6, the words "Account payee only" are an instruction to the collecting bank that the amount of the cheque must be credited to the account of the person named in the cheque as the payee, and to no other account. Without these words, a not negotiable cheque may be credited by a bank

to any of its customers, whether the payee of the cheque or not. To make a cheque as secure as possible, it should be drawn to the payee's order and crossed as in No. 6, the address of the payee's bank being given in the crossing. The words "not negotiable," it should be noted, are of no effect on an open cheque; they must form part of a crossing.

Suppose a cheque is posted by A the drawer, to B the payee, and is crossed "not negotiable." Suppose it reaches the payee, is endorsed by him, and is then stolen by C, who passes it on to D. Although D has taken it in good faith and given value for it, he has no better title to it than C had—that is, he has no title at all—for the cheque was not negotiable. He cannot retain it as against the rightful owner; nor, if he gives it up to the rightful owner, can he claim on A for its value. Had the words "not negotiable" been absent from the crossing, he would have had a good title and could have kept the cheque and had it collected; and, in the event of payment having been refused by A's bank, he could have sued B, the endorser, for its value. Had the cheque been uncrossed he would also have had a claim against A, the drawer.[1] As it stands, his only remedy is against C, the thief from whom he took the cheque. Cheques are negotiable instruments in their origin; but payment of them can always be demanded at once, and there is, therefore, no advantage to be gained from negotiating them. As shown above, it is safer for the drawer if he deprives them of negotiability.

[1] But, when a cheque has been crossed the drawer is protected under Section 80, provided (1) the cheque has come into the hands of the payee, and (2) the bank on which the cheque was drawn has paid it in good faith and without negligence.

CHAPTER X

THE COLLECTION OF CHEQUES

1. **Holder's Choice of Courses.** The owner of a cheque may take one of three courses to obtain value for the cheque he holds.

(1) He may, when the cheque is not crossed, go in person with it, or send his messenger with it, to the bank on which it is drawn and ask for payment over the counter in exchange for the cheque.

(2) He may pass the cheque on by way of payment to some other person.

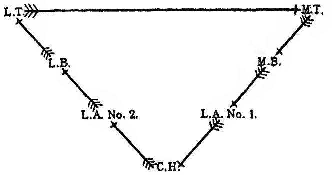
(3) He may pay the cheque into his own bank for the bank to collect its value and place the amount to credit of his account.

As regards the first course, it is not unusual for a very large part of the cheques a trader receives to be drawn on places far distant from the trader and from each other. This course would therefore be so costly and inconvenient as to be impracticable in very many cases. About the second course, one difficulty is that the amounts of the cheques a business man receives are seldom the same as those he has to pay his creditors. But a more serious objection is that banks act on the rule of " First come, first served "; and that some of their customers may not keep them amply furnished with the means wherewith to meet cheques when these turn up for payment. If a cheque is being passed on through a number of successive hands, there is some risk that it will not be presented for payment until the banker no longer holds funds of the drawer's sufficient to pay it with. The third course is the most convenient and the safest of the three. The collecting of cheques for customers is part of the ordinary business of the banks, and they have developed an organization for the rendering of this service in the most economical way. Except in special

circumstances, the collection of cheques by the banks is effected by means of the clearing-house system.

2. Collecting a Country Cheque through the Bankers' Clearing House in London.

Suppose a Liverpool trader remits a cheque to a Manchester trader. The Manchester trader, having an account at a Manchester bank, pays the cheque into that bank for collection. The Manchester bankers send it, with others paid into the bank that day, to their clearing agents in London



L.T. = Liverpool trader.	M.T. = Manchester trader.
L.B. = „ bank.	M.B. = „ bank.
C H. = Bankers' Clearing House.	L A. = London agents.

(L.A. No. 1). Next day, these London agents take the cheque together with many others similarly received, to the Bankers' Clearing House, where they hand it over to the clearing agents (L.A. No. 2) of the Liverpool bank on which the cheque is drawn. London agents No. 2, send it on the same evening to the Liverpool bank, and debit the account of that bank in their books. When the cheque reaches Liverpool the following morning, the Liverpool bank debits the amount to their customer, the Liverpool trader who is the drawer of the cheque. In the meantime, London agents No. 1, have credited the Manchester Bank, and the Manchester bankers

have credited the Manchester trader who paid the cheque in to them. The settlement between the two London banks acting as clearing agents remains to be explained.

3. **The Clearing Banks.** The members of the Clearing House at the present time are the following eleven banks—

Bank of England	Westminster Bank, Ltd.
Barclays Bank, Ltd.	Bank of Liverpool & Martin's, Ltd.
Coutts & Co.	National Bank, Ltd.
Glyn, Mills, Currie & Co.	National Provincial Bank, Ltd.
Lloyds Bank, Ltd.	Williams Deacon's Bank, Ltd.
Midland Bank, Ltd.	

New banks are rarely admitted; and, owing to numerous amalgamations, the number of members has dwindled greatly from what it used to be. The list contains a few names of joint-stock banks that were provincial in origin and therefore not members of the Clearing House; but they have gained admittance by absorbing older London banks that were members. The head offices in London of the great joint-stock banks do the clearing for their own branches all over the country, and for their branches in the London area, except in the cases of a few important London offices which clear on their own account. Country banks that are not branches of a clearing bank have to employ a clearing bank as agent. Great numbers of cheques come up to London every morning, change hands in the Clearing House during the day, and go back again in the evening to the provincial banks on which they are drawn. But there is a vast volume of cheques, payable in London itself, that pour through the Clearing House daily as they pass from collecting to paying banks.

4. **How the Cheques are Interchanged.** The Bankers' Clearing House, situated in Post Office Court, Lombard Street, is controlled and maintained as an institution jointly owned by the banks that are members of it. They all have accommodation at the Clearing House and have their own clerks at work there. The interchange of cheques is carried out as follows: A clearing banker—let us say he is Member No. 1—

holds a quantity of cheques for clearing. Before sending them out to the Clearing House, he has the cheques sorted and listed in separate lots under the names of the other members. A messenger then takes them to the Clearing House and hands them round—each lot to a representative of the member for whom it is intended. Member No. 2 receives n his batch cheques drawn either on himself or on banks for which he acts as clearing agent. So does Member No. 3. Now, Member No. 2, in his turn, leaves cheques with Nos. 1 and 3; and Member No. 3 with Nos. 1 and 2. The remaining members all give and receive bundles of cheques in this way too.

5. The Daily Settlement. Let us look at the procedure on a scale smaller than the actual, imagining that the clearing offices number ten only. Member No. 1 has nine others to settle with. Let us suppose that with each of five of these he has more to pay than to receive, and that the sums he has to pay them exceed, by £17,000 in all, what they have to pay him. As regards the remaining four members taken together, let us assume he has to receive £13,000 more than he has to pay. The day's clearings, then, as far as he is concerned, will be settled by his paying out £4,000. He pays it in *one* amount. What actually happens is that he signs an order requiring a transfer of this amount to be made in the books of the Bank of England *from* his account there *to* the Clearing Account (or, more correctly, the "Account of the Clearing Bankers"). His share in the day's operations is then finished. Member No. 2 for his part may find that on general balance he has something to receive instead of something to pay; and, if so, he will give an order requiring transfer of the amount due to him to be made at the Bank of England *to* his account *from* the Clearing Account. These orders are countersigned by the inspector or the deputy-inspector of the Clearing House. All the clearing banks keep accounts at the Bank of England, and their settlements for each day's clearings are all made by transfer between accounts in the manner just explained.

If six of our imaginary members have, like No. 1, final balances to pay, then four of the ten will have final balances to receive, like No. 2. And it follows that the total of the balances paid by the six must be the same as the total of the balances received by the four. In the Clearing Account at the Bank of England, therefore, the debit entries should balance the credit entries every day. In our imaginary case, the account might appear thus—

Dr. ACCOUNT OF THE CLEARING BANKERS. *Cr.*

Paid out of this Account to Clearing Bank—	£	Paid into this Account by Clearing Bank—	£
No. 2	5,000	No. 1	4,000
6	6,000	3	3,000
7	7,000	4	2,000
9	3,000	5	1,000
		8	5,000
		10	6,000
May 1, 19...	£21,000		£21,000

Supposing the number of the clearing banks to be twenty instead of ten, the number of transfers required for one settlement all round would be twenty only—one transfer for each clearing office. But if the offices were to settle with each other separately, there would be required $20 \times 19 \div 2 = 190$ transfers altogether.

6. The Different Clearings. The reader will have noticed, on the cheque forms issued by English banks, a capital letter T, M, or C, prominently printed near where the amount of the cheque appears in figures. The letter is there to save time in the preparing of cheques for the Clearing House. T indicates Town clearing; M, Metropolitan; and C, Country. The Town clearings, of which there are two in the day, are the most important. They take the cheques drawn on banks in an area corresponding roughly to the City of London. The Country clearing is for cheques on provincial towns; and the Metropolitan clearing comprises those drawn on London banks

outside the Town area. Bills that are not cheques are included in the Town and the Metropolitan clearings; but the Country clearing is confined to cheques.

7. Provincial Clearing Houses. Bankers' clearing houses are established in the large provincial centres—in Manchester, Liverpool, Birmingham, Bristol, and other cities. Each local clearing house, however, deals only with cheques drawn on banks within its own city and suburbs, or within a limited area of the surrounding district. The local settlements are made by transfer in the books of the local branch of the Bank of England, just as they are in London. There are bankers' clearing houses in Glasgow, Edinburgh, and Dublin; but Scottish and Irish banks are not connected with the English clearing system. Some of the English banks, however have made arrangements for the exchange of cheques with the offices of the Scottish and Irish banks in London, whence the cheques are distributed to the towns where they are payable. In other cases cheques between the sister countries are presented through the post by the collecting banks direct to the paying banks, drafts on London being given in return.

8. Cheques as Transfers of Credit. The total value of the cheques passing through the London Bankers' Clearing House, in the year 1926, was £39,825,054,000. Yet the cheque system is a growth of recent times. It has been so perfected as to be now the cheapest, safest, and most convenient means we have of transmitting payments from place to place. Not the least interesting feature of the process of clearing is that all the payments making up such a vast stream of value pass from the payers to the persons paid, without the handling of any coin. Satisfaction for so many of the wants of our individual lives is to be found only by the payment of coins that we get rather a wrong notion of what is essential in a payment. Even when we give cheques we are inclined to look upon them as orders for payments to be made *in coin* by our bankers on our behalf. We have seen, nevertheless, that in most instances, the banks are not asked to pay

either coin or notes; and that the great bulk of commercial payments is carried through by nothing else than written transfers of value made between accounts kept in bank books. The simplest illustration of payment by transfer of credit is this: A draws a cheque for £20 and hands it to B of the same town, both A and B having accounts at the same bank. When B pays the cheque into the bank, the latter will credit B's account with the amount, and debit A's. Value to the extent of £20 will have been transferred from A to B by writing merely. For A's claim on the bank is now £20 less than it was, and B's is £20 more. This is just the same as when a field or a house changes hands. The field or the house is not moved; it is only the written record of ownership that is altered. What has been transferred is the right to collect the rent or the right to draw on the bank.

9. **Returned Cheques.** Cheques sent for collection are sometimes returned unpaid. When this happens, the rules of the Clearing House require that the banker on whom the cheque is drawn shall write on the cheque the reason for return. Some of the reasons commonly given are shown below. Returns of country cheques are not made through London, but through the post direct to the collecting banks. When payment cannot be obtained on presentation, a cheque is said to be "dishonoured."

(1) *Out of Date.* This term is applied to cheques that have not been presented until some considerable time after they were drawn. Such cheques are also called "stale"; and the drawee bank requires verification by the drawer before payment is made. Six months is the more usual period during which payment is made without exception being taken to the date.

(2) *Refer to Drawer.* If payment is refused because of the insufficiency of the drawer's funds, the bank commonly marks the cheque "R/D," which means "refer to drawer." This is in form a non-committal answer. Other markings used at times in such cases are "not provided for"; "N/F," which stands for "no funds"; "N/S" for "not sufficient

(funds)"; "I/F" for "insufficient funds"; but "R/D" is the one in general use.

Examples of other answers, some of which either explain themselves or have been explained already, are—

(3) *Endorsement irregular.*
(4) *Words and figures differ.*
(5) *Account closed.*
(6) *Cheque post-dated.*
(7) *Alteration requires initials.*
(8) *Second endorsement required.*
(9) *Signature differs.*
(10) *Crossed two banks.*
(11) *No account at this branch.*

(12) *Effects not Cleared*—where cheques or other orders have been paid in by the drawer of the returned cheque, but have not yet been collected.

(13) *Payment Stopped*, or *Instructions not to Pay.* The drawer of a cheque has always the right to countermand payment (Section 75) before his cheque has been presented. He signs a letter stopping the payment, and hands the letter to the banker who is obliged to obey the customer's instructions.

(14) *Drawer Dead.* A banker will not pay a cheque after he learns of the drawer's death (Section 75), but the death of a person who has signed the cheque as agent of the drawer, or of a partner whose firm's cheque has been signed by him, or of a person who has signed as an officer of a company, will not prevent payment being made in the ordinary course.

(15) *Cheque Mutilated.* Where a cheque has been badly mutilated the bank will not pay, the presumption being that if a cheque has been torn in pieces, the mutilation has been intentional and done with the object of cancelling the cheque. Should the mutilation not be serious and appear to have occurred accidentally, the cheque will usually pass, if an explanation is written upon it and initialed by the holder in whose hands the accident took place.

(16) After notice of an act of bankruptcy on the part of the customer, or on receipt of an order of the court garnisheeing his account, a bank will refuse to pay its customer's cheques.

10. Unreasonable Delay in Presentation. This will discharge

an endorser (Section 45), but it will not discharge the drawer of a cheque from liability unless the cheque has been outstanding at least six years, or unless the bank has failed during the delay in presentation of the cheque. In the latter circumstances, the drawer is discharged (Section 74) in so far as he finds himself a creditor of the bank for more than he would have been if the cheque had been presented in reasonable time. The holder of the cheque takes the drawer's place as creditor of the bank for the amount in question.

11. **Certification of Cheques by Bankers.** Occasionally a customer will ask his banker to mark or certify his cheque as "good" for the amount named in it. This might occur where, to complete a purchase of land or other property, the customer was required to pay down a large sum "in cash." The marking of the cheque by the banker of the drawer is intended to show that the cheque will be paid when presented; but it does not amount to an undertaking legally binding on the banker as his acceptance of a bill would be. Seeing, however, that the cheque has been marked at the request of the drawer, the banker would consider himself justified in ignoring a countermand of payment should his customer afterwards send him an order not to pay. A banker who by telegram, or otherwise, has made a representation to another banker that a cheque held by the latter will be paid on presentation, considers himself bound to pay if the cheque is presented in due course and is in order; for then the collecting banker or his customer will have acted and changed his position on the strength of the assurance given.

CHAPTER XI

BILLS OF EXCHANGE

1. Bills of Exchange other than Cheques. This chapter is about bills of exchange that are not cheques; that is, about

(*a*) Bills payable on demand not drawn on banks.

(*b*) Bills not payable on demand, whether they are drawn on banks or not.

What has been written in Chapter IX, on cheques, about

Date and amount	Form of endorsement
Parties	Signing for other persons
Bearer and order drafts	Forgery and alterations
Endorsement	Negotiability

applies to all other bills as well as to cheques. But crossings, whether general or special, or containing the words "not negotiable," are peculiar to cheques and to some other demand drafts addressed to banks, such as the order to pay shown on page 95. The bills of exchange treated of here cannot be crossed.

2. What a Bill of Exchange is. A bill of exchange is a written order requiring a person addressed to pay at a specified time a stated sum of money to a person named, or to bearer. The full definition given in the Bills of Exchange Act, Section 3, is—

A bill of exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money, to or to the order of a specified person or to bearer.

3. Acceptance is the drawee's assent to the order contained in the bill (Section 17). It is usually written across the face of the bill, as in Specimen No. 2. The name "acceptance"

is also given to the bill itself after the bill has been accepted, and then the drawee is known as the "acceptor." Before a bill is accepted, it is commonly called a "draft."

Specimen No. 1.

INLAND DRAFT AT THREE MONTHS.

ST. PAUL'S CHURCHYARD,
No. 1347 £236 : 10 : 0. LONDON. *1st Feb., 19...*

3/-

Three months after date, pay to our order the sum of Two hundred and thirty-six pounds, ten shillings, for value received.

FRANK FENWICK & CO.

MR. JOSEPH JENKINSON,
11 GRAY ST., NEWCASTLE-ON-TYNE.

Specimen No. 2.

JENKINSON'S ACCEPTANCE.

ST PAUL'S CHURCHYARD,
No. 1347 £236 10 : 0. LONDON *1st Feb., 19...*

3/-

Three months after date pay to our order the sum of Two hundred and thirty-six pounds, ten shillings, for value received

Accepted J. Jenkinson

FRANK FENWICK & CO.

MR JOSEPH JENKINSON,
11 GRAY ST., NEWCASTLE-ON-TYNE.

FRANK FENWICK & CO., the drawers in the transaction above, would themselves send the draft to the drawee, JENKINSON, by post, to be accepted by him and returned to them. Then, when the three months had expired, FENWICK'S bankers in London would get their Newcastle branch, or their agents there, to collect the money. Payment should, in this

case, be made at JENKINSON'S own office, as no other place of payment is specified.

A draft on demand does not need to be accepted, for it becomes payable as soon as presented to the drawee. If a bill is drawn payable at so many " days after sight " acceptance is necessary in order to fix the date when payment will be due; and in such a case the date of accepting should be shown in the acceptance. Acceptance is necessary, again, if a draft states that it has to be presented for acceptance; and, if a bill is drawn payable elsewhere than at the drawee's own address, his acceptance should be obtained before the bill is presented at the place of payment. In no other case do drafts payable at future dates *need* to be accepted (Section 39); yet it is customary to present them as soon as possible for that purpose. Acceptance makes payment more certain and, consequently, renders it easier for the holder of a bill to dispose of it to someone else.

An acceptance often names the drawee's bank as the place of payment, thus—

Accepted, Feb. 3, 19.., payable at
LLOYDS BANK, LIMITED, NEWCASTLE-ON-TYNE,
J. JENKINSON.

The place of payment is called the " domicile " of the bill. When a bill is domiciled at his bank, the acceptor should send the bank a signed advice containing particulars of the acceptance, and authorizing the bank to pay it on presentation at maturity. If a company is the acceptor, this authority would need to be signed in the same manner as cheques are signed. The acceptance of a draft would also probably be signed as the company's cheques are signed; but for the drawing of a bill a signature like that of an endorsement might be enough.

The drawee is not bound to accept a bill presented to him for acceptance (Section 53), unless, of course, he had promised the drawer that he would accept it; and even then, if he refused, it would be to the drawer only that he would be liable for the

breaking of his promise. But if he does accept the bill, he becomes immediately liable to pay it, on the date of maturity, to any person who will then be entitled to the money.

4. Qualified Acceptance. This is an acceptance that modifies the effect of the bill as originally drawn (Section 19). A qualified acceptance may be—

(1) *Conditional*, that is, making payment depend on the fulfilment of a condition; *e.g.*, "payable on delivery of bills of lading for goods to arrive by SS. 'Albatross.'"

(2) *Partial*, that is, qualified as to amount, as when a draft for £300 is accepted for £200 only.

(3) *Local*, or qualified as to place of payment, as when the acceptance states expressly that payment will be made at a specified place, and not elsewhere.

(4) Qualified as to *time*, *e.g.*, the acceptance at ninety days after sight of a bill drawn payable at sixty days.

(5) Acceptance by one or more of the drawees, but not by all.

The holder of a bill may refuse to take a qualified acceptance from the drawee, and may treat a bill so accepted as dishonoured by non-acceptance. Further, if the holder takes such an acceptance, the drawer, and any endorser previous to the acceptance, are not obliged to assent to it, and may renounce their liability on the bill. (Section 44.)

5. Inland Bills and their Uses. An inland bill is one both drawn and payable within the British Isles, or drawn within the British Isles on some person resident therein. All others are foreign bills. (Section 4.)

We have seen that the chief serviceableness of the cheque is in its obviating the transport of gold from place to place; and in its dispensing with the need of coin even in the actual payment, which is usually accomplished by a mere written transfer between accounts in bank books. The cheque is quite a modern development; but the bill of exchange in which it originated is an old form of commercial document that has been in use by merchants for hundreds of years. To save the moving of gold from city to city or from country to country

is the characteristic function of bills of exchange of all kinds. Nevertheless, inland bills are commonly drawn with some additional purpose in view.

(1) The acceptance by a debtor of an inland bill payable at a future date is *useful to the creditor* as an express undertaking by the debtor to pay a stated sum at a stated date. This undertaking contained in the acceptance is enforceable at law by the creditor. He may sue on the bill itself; he does not need to prove delivery of the goods, or to meet any objection on the part of the debtor about quantity, quality, or time of delivery not having been in accordance with the customer's order.

(2) *To the debtor* the bill is useful as a means of obtaining credit, perhaps lengthened credit, when he could not get it otherwise. In the acceptance of his customer, the seller of the goods has some security that payment will be made. An acceptor is usually anxious to meet all his acceptances as they fall due, because not to do so would damage his reputation with the banks and other parties through whose hands a dishonoured acceptance would pass. While the bill is running the debtor is able to sell the goods, or a part of them, and so put himself in funds to meet the acceptance at maturity. An inland trade bill probably gives the drawee two or three months' more credit than he would be entitled to if he had to pay for the goods in time to secure the usual discount. The drawee forgoes the discount, of course, and the bill is drawn for the full invoice value.

(3) *To the creditor again*, an acceptance is useful because he can get value for it before it matures; and the capital that otherwise would be locked up in a book-debt can, by means of the acceptance, be made available for further trading. The creditor may *negotiate* the bill, that is, he may hand it over by way of payment to someone else. Or, he may *discount* it at his bank. In the latter case the banker takes the bill and gives in exchange its face value less "banker's discount," which is interest on the amount for the time that has to run before he will receive payment from the acceptor. The discount

is calculated by the banker at so much per cent. per annum on the amount of the acceptance, and not, like interest proper, on the sum advanced. A bill for £600, with three months exactly to run to maturity, if discounted at 4½ per cent. per annum, would be worth—

$$£600 - (£4\tfrac{1}{2} \times 6 \times \tfrac{3}{12}) = £600 - £6\ 15s. = £593\ \ 5s.$$

6. Foreign Bills are (*a*) those drawn abroad and payable in this country; (*b*) those drawn here and payable abroad; (*c*) bills drawn and payable abroad that are negotiated here (Section 4). A foreign bill, especially if drawn on a distant country, may consist of a set of two or even three copies. The second copy is usually sent to its destination by a later mail than the first of the set, as a precaution against the miscarriage of the first. Sometimes, however, one copy (or *via*, as it is often called) is negotiated, whilst another is sent forward to an agent in the drawee's city, for the agent to present it to the drawee for acceptance. The copy negotiated would state that the acceptance was lying at the agent's address until claimed there. The drawing of bills in triplicate is not so general now as it used to be; for in times of peace the overseas mails are much safer and much more regular than communication was in days gone by.

The second copy of the bill, of which specimen No. 3 is supposed to be the first, would read: " At ten days after sight of this Second of Exchange (First of same tenor and date being unpaid)," etc. And were there three in the set instead of two, the wording of the first copy would be: " At ten days after sight of this First of Exchange (Second and Third . . . being unpaid)," and so on. In foreign bank drafts the names " Original " and " Duplicate " are frequently used instead of First and Second of Exchange. A bill that consists of a single copy is called a " Sola " of Exchange.

7. Foreign Bill Transactions.

Specimen No. 3, drawn by SIMPSON & SULLIVAN in Liverpool on a New York address, is presumably given in payment of a debt that the Liverpool merchants owe in America. The

WALTER P. HILL Co., on whom the bill is drawn, may be debtors of the drawers; but, just as likely, they may be agents whom SIMPSON & SULLIVAN keep in funds to meet their

Specimen No. 3.

ENGLISH DRAFT ON NEW YORK.

No. D32745. MERSEY HOUSE, WATER ST.,
Exchange for $2,500 LIVERPOOL. *15th March, 19..*

6/-

At ten days after sight of this First of Exchange (Second of same tenor and date being unpaid) pay to MESSRS. WASHINGTON IRVING & GUNTHER *or their order, the sum of Two thousand five hundred dollars, for value received, and charge to our account as advised.*

SIMPSON & SULLIVAN.

THE WALTER P. HILL CO.,
1001 EAST 29TH STREET, NEW YORK.

Specimen No. 4.

FOREIGN BANK DRAFT ON LONDON.

No. 337/12677 B.P. £ stg. 30 : 0 : 0 BASSORAH,
le dix Juillet, 19...

— BANQUE IMPÉRIALE OTTOMANE —
(FONDÉE PAP FIRMAN IMPERIAL, 1863).

British 2d. adhesive stamp.

A vue payez par cette Première de Change, la seconde ne l'etant, à l'ordre de MONSIEUR ALBERT LEVY *la somme de Trcinte livres sterling valeur recue et que vous passerez en compte suivant avis.*

BANQUE IMPÉRIALE OTTOMANE.

A BANQUE IMPÉRIALE OTTOMANE, ------------------*Directeur.*
26 THROGMORTON STREET,
LONDON, E.C.2 ------------------*Sous-directeur.*

drafts from time to time. WASHINGTON IRVING & GUNTHER are the payees, and their address we may take as Chicago. The bill would be posted direct to them from Liverpool.

On its arrival they would hand the bill to their bankers in Chicago. In return, they would receive an immediate credit for the 2,500 dollars, less discount for the time the bill had to run; or they would wait for the full amount to be collected at maturity. In either case, the Chicago bankers would mail the draft at once to their New York correspondents. The latter would present it without delay at 1001 East 29th Street for acceptance, retain it when accepted, and present it again for payment when the ten days had expired. The second of exchange would leave Liverpool by the following mail; but would be cancelled when it reached the payees in Chicago, the original having been received and dealt with by them.

Specimen No. 4. Here we may assume that MONSIEUR ALBERT LEVY, of BASSORAH, or BASRA, near the Persian Gulf, desires to make a purchase in Birmingham. With that purpose in view, he approaches the IMPERIAL OTTOMAN BANK, of his Eastern city, for a draft of £30 on their London office. He pays the equivalent of the £30 sterling in the currency of Bassorah. The bank takes the money, prepares the draft, makes it payable to LEVY himself, and hands it to him. LEVY then endorses the document to the Birmingham firm, encloses it with his order, and posts it in a registered letter to our Midland capital. Received there and payable at sight, the draft is endorsed again by LEVY's endorsees, and paid by them into their bank as a London cheque. The English bank collects the amount from the Ottoman Bank in London, and the merchants in Birmingham ship the goods.

Specimen No. 5. STEYN & SHEPPERSON, of the MAGNATES' WALK, JOHANNESBURG, have ordered goods of the value of £216 10s. from DIXON, BROWN & HALL, LIMITED, in LONDON. The time and manner of payment may be specified in the order; or the parties may have been dealing on the same terms for many years. The goods are now being shipped and the invoice has been sent to the purchasers by post. To get hold of the goods, someone must produce the bill of lading (see Chapters XIII and XXV) at the port of entry in

Specimen No. 5.

DRAFT ON JOHANNESBURG.

No. 22/1275. SOUTH AFRICAN BUILDINGS,
Exchange for £216 : 10 . 0. LONDON, E.C. *1st April, 19...*

3/-

Thirty days after sight, pay this First of Exchange (Second of same tenor and date being unpaid) to the STANDARD BANK OF SOUTH AFRICA, LIMITED, *the sum of Two hundred and sixteen pounds, ten shillings for two cases of goods per SS. " Kenilworth Castle " to Durban.*

For DIXON, BROWN & HALL, LTD.

MESSRS. STEYN & SHEPPERSON,
THE MAGNATES' WALK,
JOHANNESBURG.

JNO. BROWN,
Director.

Specimen No. 6.

INTEREST DRAFT ON RANGOON

No. 212436. MANCHESTER,
Exchange for £481 : 16 : 0. *10th May, 19...*

5/-

At sixty days after sight, pay this First of Exchange (Second and Third being unpaid) to the order of the CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA, *the sum of Four hundred and eighty-one pounds, sixteen shillings sterling, with interest added thereto at six per cent. per annum from the date hereof to the approximate due date of arrival of remittance in London. Payable at the current drawing rate for the* CHARTERED BANK OF INDIA, AUSTRALIA AND CHINA'S *drafts at sight on London. Value received—*

R W W 301/305 *per SS. " Mandalay."*

Documents to be surrendered on acceptance.

J. H. MARSLAND & CO

MESSRS. ROGER WOOD & WILSON,
PEGU PLACE, RANGOON.

South Africa ; so it has been sent to the drawees' clearing agents in Durban, together with another copy of the invoice for customs requirements there. This draft for the amount of the invoice is prepared by DIXON, BROWN & HALL, LTD., and handed in duplicate to the London office of the STANDARD BANK OF SOUTH AFRICA, under a covering letter asking the bank to send the draft out for collection. The bank will post the first of exchange by one mail, the second by the next, to their Johannesburg branch, which branch will present the first copy to arrive for STEYN & SHEPPERSON'S acceptance. In due time, they will present the acceptance for payment and will advise their London office of the result. If the bill is honoured, the London bank will pay DIXON, BROWN & HALL, LTD., the proceeds with the deduction of a small commission for their services.

Specimen No. 6 is called an interest bill, because of the clause it contains providing for interest. It is also called a documentary bill, because it is sent out with certain documents attached to it. The documents are the bills of lading (without which the consignee or his agent cannot get hold of the goods), the marine insurance policy, and an invoice made out in triplicate.

From the form of this specimen, it is to be supposed that the CHARTERED BANK OF INDIA in London pays the full amount of the bill to the drawers in Manchester at the time of taking the bill from them. The bank will thus be deprived of the use of £481 16s. for about four months. Roughly, one month each for the outward and the homeward mails, and two months for the duration of th acceptance, will pass by before the money to be collected in Rangoon can be got back to London. The interest required to be added to the bill is what the bank receives for lying out of the money from the date of its purchase of the bill to the date when the proceeds arrive in London. Further, at Rangoon, the payment will be received in rupees, and the rate of foreign exchange for rupees into pounds sterling varies. The bill is therefore so worded as to be payable by the drawees at the bank's own rate of exchange for

homeward remittances which is ruling on the day when the drawees pay. This is important in bills of exchange drawn on countries whose rates of exchange are subject to considerable variation.

8. The Banks and Foreign Bills. It is part of the regular business of banks—of the foreign and colonial banks in London particularly—to finance trade by advancing the whole or part of the amount of a bill of exchange as in the last transaction. But this business is not confined to banks here. The same is done in other lands. In Australia, for example, the banks pay out money on wool, butter, mutton, and produce generally, as it leaves the Commonwealth ports for England. The bills and documents taken in exchange are sent by the banks to London to be looked after by their offices here.

When a bank advances money on a draft, it always takes, along with the draft, the bills of lading and insurance policy as security—the bills of lading to keep the goods under the bank's control, and the insurance policy to cover any loss that may occur at sea. In example No. 6 (page 127), the bill of lading is to be given up on acceptance of the draft; in other cases, it may be surrendered against payment only. Sometimes, again, the bank will not advance more than, say, 75 % to 90 % of the amount of the draft. When that is so, and the drawee has to pay the bill with interest added, the bank does not retain interest on more than the sum advanced. The remainder of the interest belongs to the drawer. The stipulation for interest appears mostly in bills between here and the East. In addition to the documents already named, the bank may require a letter of hypothecation or pledge from the drawer. This letter gives the bank, amongst other things, the right to sell the goods when the drawee has failed to accept or to pay the bill.

An instruction not to surrender the bill of lading until acceptance or payment may be attached to a documentary bill of exchange sent for collection, without any advance having been made upon it by the exporter's bank. When,

for the security of the exporter or his bank, the bill of lading is not to be given up to the drawee until he pays, it is customary, should he pay before the bill of exchange falls due, to allow him a rebate at the rate current in his country for discounting bills. Making a draft payable at thirty days after sight, subject to this rebate, gives the drawee thirty days after acceptance in which to find money to meet the bill; or, as an alternative, it permits him to pay before the thirty expire, and so obtain earlier possession of his goods.

Exporters in this country usually deal direct with the colonial and foreign banks instead of passing the drafts on to them through English bankers' hands. We give below extracts from the printed instructions issued by two of these banks in connection with the negotiation and collection of foreign bills—

1. *The —— Bank, for Bills on the West Indies.* All bills should be drawn in pounds, shillings and pence, and in duplicate form. When exchange and all charges for commission, stamps, etc., are to be paid by the drawees, the following clause must be embodied in or endorsed on the bill, viz.:

"Payable at The —— Bank's current rate of exchange for demand (or 90 days' sight) draft on London together with bank commission and all charges."

In the absence of such clause, proceeds will be remitted by demand draft less exchange, commission, and all other charges.

The —— Bank also requires that specific instructions be given when documents are sent in—

(*a*) Whether bills of lading are to be given up on acceptance or on payment;

(*b*) Whether in event of non-acceptance and/or non-payment, the goods are to be handed over to a specified firm, or are to be re-shipped back to the shippers at once, or are to be sold immediately, or are to be held, if practicable, for further instructions.

2. *The —— Bank, for Bills on India, etc.* The bank negotiates, or grants advances against, bills payable in India, Burma, Ceylon, Aden, Zanzibar, etc., on current terms. Bills may be drawn as follows:

(*a*) In rupees;

(*b*) In sterling, with the clause "Payable at exchange as per endorsement," which is the equivalent of drawing in rupees, bills bearing this clause being converted into rupees in London on the day of negotiation at the current rate of exchange.

The full sterling value of bills drawn as above is paid to owners without any deduction whatever.

(*c*) In sterling, with the clause "Payable at the drawing rate for demand drafts on London." Bills drawn in this manner go forward

in sterling, the rate of exchange being fixed in the East at the time of payment, and in respect of such bills the bank has to receive either from drawers or drawees interest at the current rate from the date the bills are advanced against until the date the return remittance reaches London. When drawers wish to pay the interest themselves the item is claimed after advice of payment is received from the East, and in such cases the interest clause must be deleted from the bills.

COLLECTION OF BILLS. The bank also collects bills and accounts to owners for proceeds when received from the East.

Bills, whether for negotiation or collection, need only be made out in duplicate, and may be drawn in favour of the bank to save the necessity of endorsement by the drawers.

DOCUMENTS. The documents which should accompany bills are, invoices, bills of lading, and marine insurance policies. One written or typed invoice and one clear press copy of same should be supplied. Care should be taken that invoices contain all details required by the collector of customs at the port of discharge. Bills of lading need only to be taken out in duplicate, but if more than two copies have been signed, they must accompany the drafts. Every bill of lading should read "Shipped in good order," be made out to the order of the shippers, and endorsed in blank. Bills of lading must also be stamped by the shipping companies "Freight paid."

From the foregoing, it will be seen that the banks play a very important part in dealings with bills, both inland and foreign. They present them for acceptance, collect them when payment is due, pay them by order of the acceptors, discount them for holders, make advances on them to the drawers, and purchase them at the current rates of exchange. Still, the banks do not take part in all the bills that merchants and others handle; and even foreign bills *may* be drawn, accepted, negotiated and paid without the banks' assistance. A considerable part of foreign bill business is in the hands of dealers other than the banks. The conversion of one country's money into that of another will be dealt with in a later part of the book under Foreign Exchange.

CHAPTER XII

MORE ABOUT BILLS

9. **Date of Maturity.** Bills are drawn payable at various terms, *e.g.*—

(1) On demand, at sight, or on presentation, which are all the same in effect.

(2) At three, seven, or ten days after sight of the bill by the drawee.

(3) At thirty, sixty, ninety, or more days after sight.

(4) At one, two, three, or more months after date of bill.

Three days of grace are, in this country, always added to the time allowed for payment, except when the bill is payable on demand, at sight, or on presentation; or when the bill itself states that payment is to be made without days of grace. Thus, a bill drawn at sixty days after sight and accepted in England on the 4th of March would be due for payment on 6th May, that is, 27 + 30 + 6 = 63 days after it is sighted by the drawee. If, however, the last day of grace falls on Sunday, Christmas Day, Good Friday, or a day appointed by Royal proclamation for public fast or thanksgiving, the bill becomes due on the preceding business day. If the last day of grace falls on a bank holiday, or on a Sunday preceded by a bank holiday, the date of maturity is the succeeding business day (Section 14). The word "month" in a bill of exchange means calendar month, so that, should three bills be drawn at one month from January 29, 30, and 31, respectively, all three fall due on the same day, namely, on the third day after the last day of February; that is 3rd March. In foreign trade there is always some uncertainty about the length of time it will take the bill to reach the drawee. The usual form of foreign bill is, therefore, one payable at so many days after *sight*.

The tenor of a bill must permit of the date of payment being fixed with certainty. A bill would not be valid if drawn

payable on a contingency, say, on the expected arrival of a ship. The ship might never arrive. But a bill may be made payable on, or at a fixed period after, the happening of an event that is certain to take place, though the time of happening is still uncertain (Section 11).

10. Positions of the Parties to a Bill.

(1) *A Holder in Due Course* is the name given to a holder that has taken a bill under the following conditions: (*a*) that the bill was on the face of it complete and regular; (*b*) that he took it in good faith (*i.e.*, honestly) and gave value for it; (*c*) that he had no notice of defect in the title of the person who negotiated it to him; (*d*) that the bill was not overdue, and that he had no notice of its having been dishonoured (Section 29). A holder in due course is free from any defect of title of prior parties, and he may enforce the bill against any party liable upon it (Section 38).

(2) *The Acceptor* is the party liable in the first degree upon the bill. To a holder in due course he cannot go back on the position he has taken as acceptor—he cannot dispute the drawer's authority to draw, or the existence of the payee, or the right of the payee to endorse the bill (Section 54).

(3) *The Drawer.* Until the bill is accepted, the drawer is the party primarily liable upon it. He engages that the bill will be accepted and paid according to its tenor, and that he will compensate the holder or any endorser who is compelled to pay the bill as a result of its being dishonoured (Section 55). After acceptance, the drawer's liability becomes secondary to that of the acceptor.

(4) *An Endorser* has a liability more limited than that of the acceptor or that of the drawer. It precludes him from denying to a holder in due course the genuineness or regularity of any previous endorsement, or of the drawer's signature. In case of dishonour, an endorser is liable to compensate any subsequent party; but he has a right of recovery against previous endorsers, or against the drawer, or the acceptor (Section 55). Any person signing a bill otherwise than as drawer or acceptor is liable as an endorser (Section 56).

(5) *Transferor by Delivery*. Where the holder of a bearer bill negotiates it by delivery without endorsement, he is called " a transferor by delivery." He is not liable on the bill as an endorser. His position is like that of the seller of an article of merchandise. To his immediate transferee, if the latter gives him value for the bill, he warrants that the bill is what it purports to be, that he has a right to transfer it, and that he is not aware of any fact rendering it valueless (Section 58). These warranties are similar to those implied in a sale of goods (see Chapter XXIV). Should the bill turn out other than what it is warranted to be, the transferee would have a right to damages from his transferor. Though the warranty covers the genuineness of the bill or its freedom from forgery, it does not cover the risk of dishonour from insolvency or other causes.

11. **Negotiation.** The holder of a bill, like the holder of a cheque, has several courses open to him. He may retain the bill until maturity and then himself present it for payment, or get his banker to collect it. He may part with the bill before maturity by negotiating it to another person, or by discounting it with, or selling it to, his banker. What bills require endorsement on negotiation, and what form the endorsement should take, have been explained in the chapter on Cheques. A few points remain to be dealt with here.

(1) *A Restrictive Endorsement* (Section 35) is one that prohibits the further negotiation of a bill, as " Pay A B only —C D "; or it is one that permits further transfer for a special purpose only, as " Pay A B, for account of X," or " Pay A B, or order, for collection."

(2) *Qualified Endorsement.* An endorser, or even the drawer, may negative his own liability on the bill (Section 16). An example would be the inclusion in an endorsement of the words " without recourse to me," or of " *sans recours*," which is the French for the same thing.

(3) *Facultative Endorsement.* On the other hand, endorser or drawer may waive, as regards himself, some or all of the

duties of any future holder of the bill (Section 16). Examples: "Notice of dishonour waived"; and "*retour sans frais*"; the latter signifying that in case of dishonour, the bill is to be returned without the cost of noting or protest being incurred.

(4) *A Partial Endorsement*, or one that purports to transfer a part only of the bill, is inoperative (Section 32). *A condition contained in an endorsement* may be disregarded by the payer of the bill (Section 33). Where a bill is already full of endorsements, *an allonge*, or slip of paper for further endorsements, may be gummed endwise to the bill, and the next endorsement written on the line where they join, partly on the bill and partly on the *allonge*.

(5) *An Accommodation Bill* is one that has been drawn or accepted or endorsed without value having been received or given for it; and merely for the purpose of lending the benefit of one's signature to the holder of the bill (Section 28). For example, B might accept a bill drawn by A without B's having received any consideration for his acceptance. A's object would be to get value for the accepted bill by discounting or negotiating it. At maturity, A could not make B pay the bill; but B would be liable to any other party who, as a holder for value, presented it to him for payment. A, who had obtained value for the bill, would be expected to put B in funds before the date of payment arrived. In the meantime, he would have had the use of the sum for which the bill was drawn.

12. Presentation and Dishonour. A bill is *dishonoured by non-acceptance* when it is duly presented for acceptance and the acceptance cannot be obtained; or when, with the exercise of reasonable diligence, the presentation cannot be effected, as for example, when the drawee cannot be found (Sections 43 and 41). It is *dishonoured by non-payment* when, after the exercise of reasonable diligence, presentation for payment cannot be effected, or when on due presentation, payment cannot be obtained (Sections 46 and 47). In dishonour either by non-acceptance or non-payment, the holder of the bill, unless his title is defective, acquires the right to immediate

payment by the drawer or by any endorser (Sections 43 and 47). The more endorsements there are on a bill, the greater, therefore, is the holder's security. But he will lose his "right of recourse" to previous parties if, in the case of a bill payable at a future date, he fails to present it for payment on the day it falls due; or if, in the case of a demand bill, he fails to present it within a reasonable time (Section 45). His right of recourse to any party will be lost also if he does not give notice of the dishonour to that party without delay. Any endorser from whom the amount of a dishonoured bill has been claimed has, in his turn, the right to claim from parties previous to himself; but, here again, delay in giving notice will discharge a party from liability, unless that party has had notice already (Sections 48 and 49). In the end, it will probably be the drawer that is left to obtain, if possible, redress from a defaulting acceptor. It is customary, in presenting a bill for acceptance, to leave it with the drawee twenty-four hours. On payment of a bill, the person presenting delivers up the bill to the person who pays (Section 52).

13. **Noting and Protest.** If an inland bill is dishonoured, it is advisable to have it noted so as to put the fact of dishonour beyond dispute; but to note or to protest an inland bill is not necessary in order to preserve recourse against drawer or endorsers. A foreign bill dishonoured by non-acceptance or by non-payment, should be protested. If it is not, the drawer and endorsers are discharged; but, when it has already been protested for non-acceptance, it need not, except on intervention for honour, be protested again for non-payment. Usually, noting or protest must be effected at the place of dishonour, and (by the Bills of Exchange Act, 1917) not later than the next business day. When the dishonour of a foreign bill has been duly noted, the protest may be left to be completed, if necessary, after instructions have been obtained from the party in this country or abroad, who had sent it for acceptance or collection (Section 51).

Noting and protesting are done by a notary public—a person officially appointed for the performance of this and

similar duties. Noting consists of making in his register a record of the dishonour of the bill. Protesting is the issue of a formal written protest, which is required by foreign courts as evidence of the dishonour. The notary marks the dishonoured bill for identification, has it re-presented, and attaches to it a slip with his name and charges, and the reason for dishonour. The following is a form of protest—

PROTEST FOR NON-PAYMENT.

On the__________day of__________________in the year One thousand nine hundred and ________________, at the request of __________________________ of __________________. ____________

I, ______________________________, Public Notary, by lawful authority and sworn, dwelling in____________________, in the County of__________________________, in the United Kingdom of Great Britain and Ireland, did exhibit the original Bill of Exchange, whereof a true copy is on the other side written, unto a clerk in the counting-house of____________________, the person upon whom the said Bill is drawn, and demanded payment thereof, which demand was not complied with, and the said clerk answered________________

Wherefore I, the said Notary, at the request aforesaid, did and do by these presents solemnly protest against the drawer and endorsers of the said Bill, and all others concerned, for all costs of exchange, re-exchange, and all costs, damages, and interest already incurred or to be hereafter incurred, for want of payment of the said Bill.

Thus done and protested at________________in the presence of

Seal

___________________*Witness.*
___________________*Witness.*

______________________*Notary Public.*

The claim made on any of the parties to a bill in respect of its dishonour may include, (*a*) the amount of the bill, (*b*) interest for the time payment is overdue, (*c*) the expenses of noting and protest (Section 57). To maintain the liability of the acceptor of a bill, it is not necessary to protest it or to give him notice of dishonour (Section 52).

14. **Intervention for Honour.** The drawer of a bill or an endorser is permitted to insert in the bill the name and address of a person to whom the holder may resort "in case of need," that is, in the event of dishonour of the bill (Section 15).

If a bill is dishonoured by non-acceptance and is not overdue, a person not already liable upon the bill may intervene and accept it for the honour of any party to the bill (Section 65). Similarly in the event of a bill being dishonoured by non-payment, a person may intervene and pay the bill for the honour of any party liable upon it (Section 68). But protest for non-acceptance must precede acceptance for honour, and protest for non-payment must precede payment for honour. The payer for honour *supra protest* is entitled to possession of the bill and of the protest; and he takes the rights of the party for whose honour he pays.

15. **Promissory Notes** are negotiable instruments of the same class as bills of exchange; but differing from bills in their being written in the form of a promise, instead of an order, to pay. Our commonest example is, perhaps, the Bank of England note, which most of us catch a glimpse of now and again. By the Bills of Exchange Act, 1882, Section 83, a promissory note is defined as—

> An unconditional promise in writing, made by one person to another signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

The maker of a note, being the party primarily liable upon it, is in a position corresponding to that of the acceptor of a bill (Sections 88 and 89). The following specimen No. 7 contains a stipulation for the payment of interest on the sum in respect of which the note has been given—

Specimen No. 7.

PROMISSORY NOTE.

£125—— MANCHESTER. *1st May, 192..*

2/-

One month after notice, I promise to pay MR. WILLIAM WIGGLESWORTH *or order, the sum of One hundred and twenty-five pounds for value received; interest to be payable half-yearly on June 30 and December 31, at the rate of five per centum per annum.*

GEORGE HENRY BENTINCK.

Specimen No. 8.

JOINT AND SEVERAL NOTE.

£500—— YORK. *1st June, 19...*

5/-

On demand, we jointly and severally promise to pay MESSRS. TIMOTHY TROTTER & CO., *or their order, the sum of Five hundred pounds sterling.*

SYLVESTER GRAY.
MARMADUKE GREEN.

A joint and several note might be used where one of the signatories to it was guaranteeing repayment of money lent to the other by the payee of the note. When a note is simply joint, and not joint and several, and judgment has been obtained against one of the makers of the note, a second action cannot be brought against the other or others, even though the note is still unpaid.

16. **Stamps.** Every bill of exchange drawn, negotiated, or payable in the United K ngdom, requires a revenue stamp, and except in the case of foreign bills drawn abroad, the stamping must be done before the bill is drawn.

(1) On bills payable on demand, at sight, or on presentation, or at three days after date or sight, the duty is twopence. The stamp may be impressed or adhesive.

(2) On bills not payable on demand or at three days after date or sight, and on all promissory notes, whether payable on demand or not, if the bills or notes are drawn or payable in the United Kingdom, an *ad valorem* (varying with value) duty is imposed as follows—

Where the amount does not exceed	£10,	stamp	2d.
Where it exceeds £10 but not	25	,,	3d.
,, ,, ,, 25 ,, ,,	50	,,	6d.
,, ,, ,, 50 ,, ,,	75	,,	9d.
,, ,, ,, 75 ,, ,,	100	,,	1s.

For every additional £100 or part of £100, 1s.

If the bill is issued in this country, the stamp must be impressed.

(3) Bills drawn and payable abroad, if negotiated in the United Kingdom, require in addition to the foreign stamp (if any) a British stamp as follows—

Where payable on demand, or where not exceeding £50, stamp as above.
Where exceeding £50, but not £100, stamp 6d.
For every additional £100, or part of £100, stamp 6d

The stamp required on foreign bills is an adhesive one. Where the twopenny rate applies a postage stamp will do; but in the other cases a special foreign bill stamp must be used.

A stipulation in a bill or note for interest to be paid on the amount of the bill does not affect the value of the stamp required, unless the interest is calculated and included in the sum named. Any person dealing with a bill that is insufficiently stamped is liable to a penalty of £10. When a bill is drawn in a set of two or three, only one of the set is stamped.

17. Some Further Points. (1) To *renew* a bill of exchange is to take it back from the holder and give in its place a new bill payable at a later date, and probably including interest for the extra time that will then pass before payment will be made.

(2) To *retire* a bill is to withdraw it from circulation, or to recall it from the party to whom it was given. Any party to a bill, other than the holder of it, may retire the bill by paying the amount, less discount for the time that has still to run.

(3) A *rebate* is a return or allowance of discount when a bill is retired or taken back by the discounter, or by the drawee or acceptor, before it falls due.

(4) The *tenor* of a bill is the meaning or purport of the whole of the words used in drawing the bill; but the term is often taken to signify the currency of the bill, that is, to refer solely to the words that express the time of payment.

(5) *Usance* is the customary length of time for which bills between any given two countries are drawn. Usances of

bills vary with the different countries concerned in them. And, though ninety days' sight may be the usance between two countries, that does not prevent many bills being drawn between them for other periods.

(6) *Backing* a bill is a term used for the endorsing of a bill by a person who was not a party to the bill, the object being to give to the instrument the benefit of his name. A bill bearing the name of a bank or first-class business house is a more acceptable security than it would be without that name.

(7) *Re-exchange* is the sum for which a new foreign bill would have to be drawn in order to replace a dishonoured one, and to realize in the country where dishonour took place the same amount that the original bill would have realized to the holder. Re-exchange, for an English bill dishonoured in Holland, would be the amount in sterling for which the Dutch holder of the dishonoured bill would have to draw a new bill on the English drawer of the old one, so that this new bill could be sold in Holland for what the old bill would have realized to the holder, had it been paid in due course by the Dutch drawee.

(8) An I O U (I owe you), for example—

"I O U Ten pounds,
PETER BROWN."

is not a promissory note, a negotiable instrument, or even a receipt. It is merely written evidence of a debt agreed between the giver and the holder of the document, and it does not need to be stamped.

CHAPTER XIII

EXPORT TRADE

1. Difficulties of Foreign Trade. Distance is itself the cause of considerable trouble. There is the difficulty of procuring orders amongst strange peoples speaking with bewildering tongues in far-off and unfamiliar lands. There are the inconveniences, in many cases, of having to put trust solely in samples and written offers sent out hopefully through the post; in others, of being unable satisfactorily to supervise travellers when for long periods they are completely out of sight; of controlling agents when a few intermittent letters are the least restricted means available for intercourse; of resorting to the more or less cryptic messages of code or cipher cablegrams when question and answer must flash out and back, and business cannot wait (in the absence of a fast air-postal service) on the slow-going complacency of mails. There is difficulty in transporting goods across great ocean spaces; in packing them securely against damage in the rough and tumble of sea-passage; in risking total loss when nature in menacing mood proves to be more than man can outwit or control; in forcing an exit or an entry through the barriers of protective duties and other hindrances with which nations in their jealousy seek to guard the sanctity of their shores. And, when our efforts have reached some success, there is still the task of obtaining payment for our goods; of making sure that our distant customers do not elude our just claims; of deciding, say, exactly how many Dutch florins or Russian roubles shall be taken as the equivalent of so many British sovereigns; of converting American dollars into Chinese taels. Lastly, there is the problem of obviating as far as possible, the carrying of coin to and from different places, of setting the claims of one country against those of the other, and shipping precious metal to pay off the balance only.

2. An Export Invoice. Perhaps the best line of approach to the subject of this chapter is to produce a specimen invoice of exported goods, and to use it as if it were a "text" on which to hang, one by one, our subsequent observations.

The invoice that follows differs materially from any of those shown in Chapter V. The heading is different, and so is the

Specimen No. 1.

EXPORT INVOICE.

Invoice of five bales cotton piece goods shipped by the undersigned by SS. "Mandalay" from Birkenhead to Rangoon, by order and for account and risk of MESSRS. ROGER WOOD & WILSON, RANGOON.

		£	s.	d.	£	s.	d.
R W W Rangoon 301	1 Bale = 150 pieces of 42″ Madapollams of 24 yards each = 3,600 yards @ 6⅛d. . . . Measurement, 2′ 6″ × 2′ 0″ × 2′ 7″ Gross weight 6 cwt. 3 qrs. 20 lbs.	91	17	6			
302/305	4 Bales of 14,400 yards do. do.	367	10	–	459	7	6
	CHARGES:						
	Making-up and packing five bales @ 16s. each	4	–	–			
	Carriage to Birkenhead, Dock Dues, and other charges .	–	18	11			
	Freight on 64′ 7″ @ 38s. 6d. .	3	2	2			
	Bills of Lading . . .	–	2				
	Marine Insurance on £550 @ 10s. %—Stamp on policy, 9d	2	15	9			
	Commission, 2½%, on £459 7s. 6d	11	9	8	22	8	6
E. & O.E.					481	16	–

MANCHESTER, *10th May, 19...*

J. H. MARSLAND & CO.

manner of setting out particulars of the goods. The charges are something not to be found in a home-trade invoice, and the signature of the shipper is also new. The last item of

the charges, namely, the commission, suggests that the shipper of the goods is not the seller, but only an agent who has bought the goods for the consignees by their instructions. In this case, then, the heading "Bought of J. H. MARSLAND AND Co." would not be suitable, because it would not be true. The commission of $2\frac{1}{2}\%$ on the cost of the goods should be all that MARSLANDS make out of this transaction; for, as we shall learn later, an agent cannot legally keep for himself undisclosed profits or discounts made in carrying out the orders of the person whose agent he is. It has, nevertheless, been the practice of many shipping houses to make a profit on the goods they export, and to charge commission as well. Whether a shipper is selling on his own account or merely buying and shipping the goods on commission, this form of invoice is the one that he commonly uses. E. & O.E. means "errors and omissions excepted."

Charges other than those here shown may appear on export invoices; *e.g.*, telegrams, bank commission, bill stamps, and patterns. The patterns would be small samples cut from the same cloth as the pieces invoiced. These patterns are often sent to the buyer by post so as to arrive in advance of the goods and give him a chance to sell from the patterns before his purchase comes to hand. Like bills of exchange and bills of lading, export invoices are usually made out in triplicate. One copy is required by the customs authorities at the port of entry abroad. To prevent duty being collected on more than the correct value of the goods, any discount allowed to the customer should be shown deducted from the invoice.

3. Making-up and Packing. Making-up refers to the form in which each piece of cloth is folded, stamped, papered, ticketed, and tied or stitched together. Textiles, particularly for the East, are got up so as to look their best, for appearance has a good deal to do with their ready sale in the native market. Merchants here adopt distinctive marks or designs with which they stamp their fabrics, so that the stamp on the cloths serves as a brand to identify their goods in the markets for

which they compete. They register these marks and are quick to take action should another merchant attempt to infringe their right to any design. There is a number of recognized ways of folding the fabrics and of tying them up with fancy papers and tapes. The pieces are commonly made up in rather short or medium lengths, and those in a given lot are, as a rule, all cut to the same number of yards a piece. Manchester merchants frequently give out their making-up and packing to firms that specialize in this work.

When the goods are made up there are various ways of packing them. They may be put in bales or in cases. Bales are usually hooped with iron, the hoops being put on whilst the bale is compressed in a hydraulic or steam press. On bales, single or double canvas is used for outside wrappings; inside is tarpaulin or oil-cloth or patent packing, the last named being thick waterproof paper, one of the layers of whose composition is a smearing of tarry substance. Cases may be of wood only, or of wood with a zinc lining slipped inside. The zinc or tin lining is provided with a lid that is soldered down all round when the case has been filled. The metal thus makes a thin inner shell, water and air proof, that effectively keeps out all wet and dampness; and—what is another consideration—prevents pilfering of the goods; whilst the outer case of wood is strong enough to resist fairly rough handling when the heavy package is moved about on land, or is slung into or out of the ship's hold. With cases of wood only, oiled or other waterproof material is used for inner lining. Each lot of goods for which a case is required is first stacked on floor or counter in the shape the goods will take in the case. Then the case maker is sent for to come and measure up; and, after the cases are supplied and the goods placed inside, he calls again to solder down the tops. Cases are made with their outside sizes about two inches more every way than the piles of goods they are to hold.

The port of destination must be lettered on the outside of each package. The full name of the consignee may also be given; but, as a rule, he is indicated by initials only. A serial

number is given to each case or bale. Frequently there is added some simple geometric device by which all packages in the same consignment can easily be picked out from amongst a miscellaneous array of cargo. These marks, including the numbers, the initials, and the name of the port, are put on the cases or bales by means of stencils. The marks are quoted on the invoice, and the invoice should be made out in such a manner as will show exactly what each case or bale contains. On some routes in South American countries, packages have to be carried in pairs of equal weight for long distances on mule-back over rugged mountains or through swampy wastes. In Central Africa, transit is effected by native carriers bearing the goods on their heads. Such conditions necessarily determine the sizes and weights that must be given to the packages by merchants here.

4. **Freight** is the charge made for carrying goods by ship. Shipowners go by the weights of the packages, if it suits them to do so; but, for goods of the kind we are considering, it is their custom to charge on the bulk. The reason is that a ship's capacity is limited, and it would be unfair to accept at the same charge two consignments of the same weight when one was of a bulky nature and occupied three or four times the room of the other. For steamship cargoes *forty cubic feet* is taken as the equivalent of a ton weight, and this standard is known as the ton measurement. Articles of unusual shape and requiring special stowage would be carried at specially quoted prices.

As a case or bale is rectangular in shape, its cubical content is found by multiplying together its length, breadth, and depth. Thus a case measuring 4 ft. by 3 ft. by 2 ft. $= 4 \times 3 \times 2$ or 24 cubic feet. But, when the measurements are not even numbers of feet, the calculation is a trifle more complex. A case 4 ft. 3 in. by 3 ft. 6 in. by 2 ft. 8 in. would give the product of $4\frac{1}{4} \times 3\frac{1}{2} \times 2\frac{2}{3}$ cubic feet, that is—

$$\frac{17}{4} \times \frac{7}{2} \times \frac{8}{3} = \frac{119}{3} = 39\tfrac{2}{3} \text{ cubic feet.}$$

The simplest method for all sizes is to work by duodecimals,

as below, where a prime is 1/12th of a foot, and a second 1/12th of a prime—

Feet	Primes	Seconds	
4	3		multiplicand
3	6		multiplier
12	9		product of 4′ 3″ and 3′
2	1	6	" " " " 6″
14	10	6	" " " " 3′ 6″
2	8	–	multiplier
29	9	–	product of 4′ 3″ and 3′ 6″ and 2′
9	11	–	" " " " " " 8″
39	8	–	" " " " " " 2′ 8″

Here the final product, viz., 39 ft. 8 primes, is just under one ton measurement. The capacity of the five bales named in the invoice we are studying, and the freight charge for them are worked out as follows—

(1)

2′ 6″	length of each bale
2′ 0″	breadth " "
5′ 0″	area of one surface
2′ 7″	depth of each bale
10′ 0″	
2′ 11″	
12′ 11″	capacity of one bale, which × 5 = 64′ 7″ for the five.

(2)

A capacity of 40′ 0″ gives	£1 18 6	freight charge
" " " 20′ 0″ "	19 3	" "
" " " 4′ 0″ "	3 10	" "
" " " 6″ "	6	" "
" " " 1″ "	1	" "
The total of 64′ 7″ "	£3 2 2	total charge

An alternative working of (2) is—

	64′ 7″ @ 40s. for 40 cub. ft. =	64s. 7d.
Deduct	64′ 7″ @ 1s. " " =	1s. 7½d.
"	64′ 7″ @ 6d. " " =	9¾d.
Leaves	64′ 7″ @ 38s. 6d. " " =	62s. 2d.

To the freight there is sometimes added a percentage called primage. For example, the freight from Birkenhead to Rangoon might be 35s. a ton, plus primage, 10 %, making 38s. 6d. in all. By some companies or steamship rings, the primage is returned as a rebate after the lapse of twelve months or so, if, in the meantime, the shipper has continued to send his goods by the same line or the same ring. In origin, primage was a perquisite to the captain of the ship for taking care of the cargo; but now it is part of the steamship owner's charge.

5. Bills of Lading. A bill of lading is—

1. An acknowledgment of goods received by a shipowner for shipment on a vessel named;
2. The written contract of affreightment setting out the particulars of the goods and their destination; also the conditions on which the shipowner undertakes to carry them;
3. The document of title to the goods, for transfer of the bill of lading duly made from one person to another transfers also the right to claim the goods.

As a rule, a bill of lading is made out in a set of three copies each bearing a sixpenny impressed stamp, with a fourth copy unstamped. The unstamped copy is retained by the owners of the ship. One of the stamped copies is posted to the addressee of the goods, or to his agent in the port where they are to be put ashore. In case this first copy goes astray, a second is sent by a later mail. Without surrender of one of the set, the shipping company will not deliver up the goods. The bill of lading shows what the freight comes to, and whether it has been paid by the exporter or is to be collected from his consignee. In the latter case, no charge would be made for freight on the exporter's invoice. Different shipping companies use bills of lading in somewhat different forms; a specimen will be found in Chapter XXV. Forms are supplied through stationers so that exporters may fill them in themselves, after which they present them at the steamship office for signature and return.

6. Marine Insurance. This charge on the invoice represents a sum paid to a company or other body of persons for undertaking to indemnify the shipper against such risks of the sea

as are outside the shipowner's liability according to the bill of lading. The shipowner's liability is very limited, as we shall learn by and by. For the payment named, the underwriters or insurers agree to compensate the insured for any loss, or some part of any loss, that he would have to bear himself if it occurred without insurance having been effected. The terms of the agreement are put in a policy of insurance issued to the shipper, and on this his claim is based when he has occasion to make one.

Marine insurance will be the subject of a later chapter; but a few points had better be mentioned here. The parties interested in the safety of a ship are: (1) the owner of the ship; (2) the charterer or hirer of the ship when the owner happens to have let her out on hire; (3) the owner or the different owners of the cargo. Now, the captain of a ship in difficulties will sometimes deliberately incur the loss of a part of his ship, or of a part of the cargo, with the object of lightening the vessel or otherwise securing the safety of what is left. When that is done, the loss incurred will not fall entirely on the persons whose property the captain has abandoned. By maritime law, such a loss must be borne by all the parties interested in the ship and cargo as a whole; and borne by each party in proportion to the value of his interest. He, however, usually insures before the ship sails against loss of this kind; that is, for a small payment he passes his liability on to the insurers, and when a loss does occur, he claims the amount from them. The contribution of all parties interested in the ship and cargo towards such a loss is known as *general average*. Examples of general average loss are: (1) the cutting away of masts or spars, or the casting away of ship's tackle; (2) the jettison or throwing overboard of some part of the cargo.

A loss that comes about by accident, one that is not incurred intentionally and with the view of general safety, is to be borne by the party whose property suffers. But, as before, he commonly insures himself against this risk too, and claims for it under his insurance policy when a loss takes place. Such unintentional loss may be either a total or a partial loss

of the property of the party concerned. The former is called *total loss*; the latter *particular average*. Examples of this class of losses are: (1) the carrying away of masts or of gear by the storm; (2) damage to cargo by water getting into the hold of the ship.

Where goods are securely packed, as textiles in tin-lined cases, or where, like rough steel forgings, the goods are little subject to damage, the insurance rate will be lower because of the decrease in the risk. The insured may, however, take out his policy F.P.A., or free of particular average. That means a further reduction in the premium he is asked to pay for the insurance; but it also means that if a particular average loss occurs he cannot recover the loss from anyone. In other circumstances he would insure A.A.R., against all risks; W.A. or W.P.A., with particular average, is the same thing. G/A in this connection stands for general average; F.G.A. for foreign general average; T.L.O. for total loss only; and F.A.A. for free of all average. Extra premiums are charged for war risks. Insurance is usually effected for such a sum as will cover the price of the goods, with the addition of all charges that have been or will be incurred up to clearing the goods at the port of entry, and of the profit that the buyer expects to realize on their sale.

Every policy of sea insurance must be stamped in accordance with the following rules—

1. Where the premium does not exceed 2s. 6d. per cent., the stamp is one penny for any amount. In other cases:
2. For or upon any voyage, where the sum insured does not exceed £250, 3d.; for each additional £250, or part thereof, up to £1,000, an extra 3d.; afterwards, for every £500 and any fractional part of £500, an additional 6d.
3. For "Time" policies, not exceeding six months, an amount equal to three times the amount which would be payable if the insurance were made upon a voyage; exceeding six months but not exceeding twelve months, six times the amount which would be payable if the insurance were made upon a voyage.

7. Despatching Goods to Ship. If a consignment is to catch a certain sailing, the shipper must make his arrangements so that the goods will be ready and the packages despatched in good time for the boat. As soon as he can tell exactly or

approximately how many and of what sizes the cases will be, he should communicate this information and the destination of the goods to the steamship company or its agents, and reserve the necessary space in the vessel. Next, he will have the railway company or other carriers or carters to apprise, and he will have to see that they collect the packages at the proper day and hour; for, should the day of closing for cargo be near at hand, he must make sure that the goods leave by a train early enough to prevent their being shut out.

After despatch, the dock authority must be advised of the coming of the goods. This is done by what is usually called a *Shipping Note*—a specimen of which appears on page 152. Application must also be made in the proper quarter for the policy of insurance. The bills of lading must be procured from the steamship office and the freight note paid. If the exporter has filled in the bills of lading himself he has to send them to the shipping company to be signed and returned to him completed. In the meantime the invoice and copies will be prepared; and when all the documents are ready they will be mailed to the consignee. As an alternative they may be attached to a draft for the value of the goods and handed to a bank with instructions for collection of the money, or with a request for an advance on the consignment. The part that banks take in the financial arrangements of exporters was illustrated in Chapter XI.

A Mate's Receipt is a written acknowledgment by an officer on board the ship of goods loaded on the vessel from a lighter in the river instead of from the dock side. The document is required to be given up to the shipowners or their managers n exchange for the bills of lading. A bill of lading or a mate's receipt is said to be "foul" or "claused" when it contains any note about the packages being short of the number specified, or about their coming to hand in a damaged condition; otherwise it is called "clean." A clean bill of lading may be procured for goods received in doubtful condition on the exporters' giving to the shipping office an indemnity in respect of the damage, if there should be any.

SHIPPING NOTE.

To the Superintendent of the ______ ____________________________ Docks.

Please receive for shipment per SS. "____________________" for ____________________________

for a/c of Messrs. ____

Name of actual Consignee of the Goods abroad ______________________________________

Ultimate destination of goods ____

Mark	Number	Description of Packages	Nature of contents	Gross Weight				Charges payable by
				Tons	cwt.	qrs	lbs.	

Signature ______________________________

Address of Shipper :

Date ______________________

____

Within six days of the final clearance of the ship a *Specification of Goods Exported* must be made by the exporter or his agent on the form prescribed, and must be delivered to the proper officer of customs in the port of shipment.

8. At Port of Destination. On arrival of the goods at the port of destination they will have to be cleared through the customs office there, and the customs duty to which they are subject will have to be paid before the goods will be released. It is usual, on outward consignments, for the steamship company to require the freight charges to be paid in this country at the time of shipment. But on arrival at the foreign port, dock dues and landing charges will be payable, also warehousing charges, if the goods are not taken away at once, and insurance against fire for the time they lie warehoused at the docks. If the packages are to be sent inland to their destination, railway or other transport charges will have to be met as well. To attend to these and similar matters on the purchaser's behalf, a clearing and forwarding agent is commonly employed in the distant port. The bills of lading may then be made out in the agent's name, and may be mailed direct to him by the exporter here, instead of being addressed to the purchaser of the goods at their ultimate destination.

CHAPTER XIV

EXPORT TRADE—*continued*

9. **Exporter as Merchant or as Manufacturer.** We have referred to the shipper as an agent of the buyer abroad. Reference has been made to him also as a seller on his own account. In the latter case he probably specializes in a particular market, as India or China, Russia or the Levant, West Coast of Africa or South America. Probably the shipper is an importer of goods grown or produced in the market with which he trades, as well as an exporter of British goods to his customers there. If that is so, the proceeds he receives on the sale of imports will go to pay him for his exports, and he will make profit or commission on both. Some British merchants keep establishments abroad, and some foreign merchants have branches here. Before business relations are entered into with a new customer, satisfactory reports about his character and standing would be required from banks or from other traders who know him.

Often enough manufacturers in this country export to customers in other lands without the intermediary of either agent or merchant on this side. Materials for engineering work abroad are sent out in this way, and many more homely articles of consumption are packed and shipped by the makers themselves. As an example we give an invoice for boots made in Leicester and sent direct to a Cape Town purchaser. (*See* next page.)

The words "Bought of" at the head of this invoice would, of course, be quite suitable in the circumstances indicated in this transaction. The order for the boots may have been sent home from Cape Town by the manufacturers' own traveller or selling agent in the colony; or it may have come from catalogue and samples submitted through the post. Or, again, the colonial importer or his buyer may have been over here and may himself have left the order at the manufacturers' works or warehouse.

Specimen No. 2.

EXPORT INVOICE.

BELVEDERE WORKS,
LEICESTER. *21st Sep., 19...*

MESSRS. GREEN & WHITEHEAD,
CAPE TOWN.

Bought of WRIGHT & JENKINS, Limited,

Boot Manufacturers.

		£	s.	d.	£	s.	d.
G △ W *Cape Town.*	Order 17/241, *10/7/19...* Shipped pei S.S. "Chepstow Castle" from London--						
1/2	2 cases, each 200 pairs Men's Leather Boots = 400 pairs @ 13s. 3d. .	265	–	–			
3/4	2 cases, each 200 pairs Ladies' Leather Boots = 400 pairs @ 10s. 9d.	215	–	–	480	–	–
	Cases—2 @ 10s. 2 @ 8s. 9d. . .	1	17	6			
	Railway and Shipping charges .	–	16	11			
	Freight, 65′ 4″ @ 85s. B/L, 2s. 6d.	7	1	4			
	Marine Insurance on £550 @ 7s. 6d. % and Stamp	2	2	0	11	17	9
E.&O.E.					491	17	9

The course that goods take from manufacturer to foreign user may be represented as below, provided the reader bears in mind that in any particular instance some one or more of the intermediate parties may be eliminated—

At home:
1. Manufacturer
2. Exporter (merchant or agent)
3. Packing and forwarding agent

4. Steamship company

Abroad:

5. Clearing and forwarding agent
6. Importer (merchant or agent)
7. Wholesale dealer
8. Retail dealer
9. Individual consumer

10. **The Order or Indent.** Orders received from foreign parts are usually called *indents*. As a rule they set out with considerable exactness the particulars of the goods required. They contain instructions about packing, marks and numbers; about sample patterns; about port and line and time of shipment, the charging of freight, and the terms of payment. They may state for how much above the invoice total the goods are to be insured; and whether the shipper has to pay the insurance himself and charge it on the invoice, or to declare the value of the shipment to the foreign importer's own insurance brokers in this country. Orders from abroad are necessarily more explicit than many of those that pass in inland trade. To have to write back for enlightenment on some obscure point causes delay of only a day or two here. With foreign orders it would be fatal to the conducting of profitable business; or the omission would mean recourse to costly telegrams.

An indent received by an English merchant may comprise quite a variety of goods—cloth and paper, shirts and shovels, hosiery and jam; biscuits, books and soap; crockery, hats, and so on. The merchant here, in such a case, re-orders each lot from the maker or supplier named in the indent; or, where none is named, from a manufacturer or merchant of his own selection. If the order is a small one, he will probably require it to be sent to his own address for enclosure with such of the other goods as he is packing himself. Should the order be large enough for the goods to be packed by themselves, he will give instructions about the marks for the package, and will have it sent direct to the ship's dock or to a railway station to await his order for delivery.

Colonial and other buyers, giving their orders direct to manufacturers in this country, may require the goods and the invoices from various sources all to be sent to a firm of packing and shipping agents in the port of shipment. The shipping agents pay the charges for carriage and shipment. They summarize the several invoices received for the same consignee, add to the summary the charges paid out by themselves.

The Tropical Lakes Corporation, Limited.

101 St. Vincent St.,
Glasgow. *8th May, 19...*

Order No. 1172
This reference to be quoted in correspondence and Invoices.

To
Messrs Broadbent, Burgess & Co.,
Manchester.

Please supply the undermentioned goods for export as instructed on the back hereof, and in your acknowledgment state when delivery can be given.

Marks and Nos.	
JAM	Five (5) pieces 31/32" × 24 yards Victoria Reversible Zephyrs, Book No. 450 @ 8¾d. the yard—one piece each of five cuttings attached.
Patterns required for each shipment— 3 sets 6" × 4" cuttings, and ¼ yard Pattern Cloth (all without covers). Patterns must be sent along with "Ready Note" when applying for instructions or before delivery to packers. Invoice must state average weight per piece.	Three (3) pieces each 27" × 24 yards Hermosa Mercerized Union Linen, Book No. R419 @ 1s. 0½d. the yard—one piece to each of three cuttings attached. *Delivery: Ex* stock to— The Merchants' Packing Co., Princess St., Manchester. *For* The Tropical Lakes Corporation, Ltd., J. A. Stevenson, *Secretary.*

Packing ______________________________

Shipping Instructions ______________________________

____

Terms ______________________________

(P.T.O.)

ORDER—TROPICAL LAKES CORPORATION, LTD., *continued*.

— NOTICE. —

Packing. All goods must be carefully packed for export and African inland transport, and trusses and bales tightly pressed to minimize freight charges.

Truss wrappers to be of approved material, consisting of (1) stout paper; (2) canvas; (3) black tarpaulin, and (4) a strong canvas outer cover carefully sewn to render the package as waterproof as possible.

Mark and number in full and gross weight must be marked legibly on top of each truss, and on one end; shipping number and indication of contents to appear. For certain marks, every truss must have a contents label, which we shall supply, inserted at the end of the truss wrappings. All painted markings must be done with indelible ink.

Up to four trusses of same dimensions, for any one mark, may be hooped together to form a shipping bale, the mark and the number of the upper truss only being exposed.

Trusses for different marks must not be hooped together.

The gross weight of each truss must be regulated to, but should not exceed, a porter's maximum load—say 58 to 60 pounds.

When applying for shipping numbers, suppliers are requested to specify the net and estimated gross weights of goods.

Invoices made out in quadruplicate for each separate mark, should be posted on the same day as the goods leave the packers, and must show distinctly the Order Number, the gross and net weights, outside measurements, contents of each package, mark, shipping numbers, terms of delivery, and country of origin. One statement showing due date, with all export and prompt discounts deducted, to accompany invoice.

Making-up. Piece goods are required in yard folds and then folded in three. Cloths, garments, etc., should be arranged to form long-shaped packages where practicable. Lengths to be stamped on piece goods, and all other stamping or ticketing to be submitted for inspection.

Reference Patterns. A full quality pattern, folded 12″ × 8″, with designs attached, for office reference; and for each mark, one reduced set suitable for posting, measuring 8″ × 4″, to accompany invoice.

the insurance and their commission. They then fasten the invoices together, summary on the top, and mail them, along with bill of lading and insurance policy, to the buyer or to his clearing agent in the port of destination. Sometimes, again, a supplier of goods for export gets instructions to take in and enclose with his goods a parcel ordered direct by his customer from some other person. The document shown on pages 157 and 158 is submitted as an example of an export order.

11. Export Prices. The terms below refer to the prices at which goods are sold—they show what charges, if any, over and above the cost of the goods are included in each price.

1. *Loco Manchester* describes the price of the goods unpacked at the warehouse or works in Manchester from which the goods are purchased.

2. *F.O.R., or free on rails, Manchester*, means that the price includes the cost of the goods together with the cost of packing, carting, and loading into the railway truck at the station or siding in Manchester.

3. *F.O.B., or free on board, Liverpool*, means that cost of goods, packing, cartage to station, railway carriage, dock dues, and all charges necessary to put the goods on board the vessel at Liverpool, are covered by the price of sale.

4. *F.A.S., free alongside ship*, does not include any charge for placing the goods on the ship, but it includes the charges for taking them alongside by barge or lighter when the ship is out of dock and moored in mid-stream. On the Thames, goods are regularly loaded in this way from barges, and as the docks are not used, no dock dues are incurred; but the lighterman has, of course, to be paid.

5. *C. & F.* signifies cost and freight. This price is the equivalent of F.O.B. plus the freight charge. It includes cost of goods and packing, cartage and carriage, dock and loading charges, and the shipowner's charge for carrying the goods from port of departure to port of destination. It does not cover the dock dues and customs duties at the latter place, nor the marine insurance.

6. *C.I.F. or C.F.I.*, the former being colloquially pronounced *siff*, stands for cost, insurance and freight. It is the C. & F. price with marine insurance added. C.I.F. Malta, means that the price charged by the seller takes the goods free up to entering port at Malta, and insures them during the voyage.

7. *Franco Barcelona* would mean that for the price quoted, the goods were to be paid through the port of Barcelona, and probably delivered free in that city. *Franco domicile* is free delivered to the consignee's place of business, whether that is in a seaport or in an inland town. This price includes the port dues, customs duties, and carriage that

are payable in the country to which the goods are destined. *Franco* invoices are made out in the currency (coinage) of the importing country.

12. Calculation of Prices. On turning back to our two specimens of export invoice, the reader will notice in both that packing, carriage, dock dues, freight, and insurance, are all charged in addition to the cost of the goods themselves. In these invoices, therefore, the prices shown for the goods are *loco* prices. The reader will notice also that, in the invoice to ROGER WOOD & WILSON, of RANGOON, £22 8s. 6d. the total of the charges, comes to almost exactly 5 % on £459 7s. 6d., the loco value of the merchandise. To find the C.I.F. price per yard, then, we add 5 % or $\frac{1}{20}$th to the invoice price of the yard—

$$6\tfrac{1}{8} \text{ pence} + \tfrac{1}{20}\text{th of itself} = \tfrac{49}{8} \times \tfrac{21}{20} = \tfrac{1029}{160} \text{ pence;}$$
$$\text{which approximately} = \tfrac{103}{16} = 6\tfrac{7}{16} \text{ pence.}$$

So, if the sale had been made on C.I.F. terms, instead of loco terms plus agents' commission and all charges, the invoice would have read thus—

18,000 yards Madapollam @ $6\frac{7}{16}$d. the yard = £482 16s. 3d.

and no charges would have been shown.

Coming next to the invoice for boots to GREEN & WHITEHEAD, CAPE TOWN, the reader will find that the F.O.B. charges are £2 14s. 5d. for 800 pairs. This would make the F.O.B. price for the single pair $\frac{653}{800}$ths of a penny more than the loco price—shall we say in round pence, 13s. 4d., the gentleman's pair, and 10s. 10d. the lady's ? Only freight and insurance would then be added to the invoice. The C. & F. charges of £9 15s. 9d. would increase the price of each pair by about 3d., and would leave only the insurance charges to be invoiced in addition, if they were paid by WRIGHT & JENKINS, LTD. Lastly, to include the C.I.F. or total charges of £11 17s. 9d. in the price of the goods an increase would be needed of fully 3½d. on the pair all round ; or about 4d. on the

gentleman's and 3½d. on the lady's. At C.I.F. prices the invoice would be made out thus—

Specimen No. 3.

C.I F. INVOICE.

BELVEDERE WORKS,
LEICESTER. *21st Sep., 19...*

MESSRS. GREEN & WHITEHEAD,
CAPE TOWN.

Bought of WRIGHT & JENKINS, Limited.

		£	s.	d.
G △ W	ORDER 17/241. *10th July, 19...*			
Cape Town	Shipped per S.S. "Chepstow Castle" from London—			
1/2	2 cases, each 200 pairs Gents' Leather Boots = 400 pairs @ 13s. 7d.	271	13	4
3/4	2 cases, each 200 pairs Ladies' Leather Boots = 400 pairs @ 11s. 0½d.	220	16	8
		492	10	–
	E. & O.E.			

13. **Moneys, Weights, and Measures.** Goods sold on C.I.F., or on franco terms, are usually invoiced in the coinage, and in the weights or measures, of the importing country. This is a convenience to the foreign customer. Willingness on our part to sell on the terms named, and in the moneys of the other countries concerned, is an inducement to foreigners to trade with us—an inducement that the British exporter is often blamed for not offering more freely than he does. We find it irksome to convert our weights and measures and money into the foreign units; but the merchant who takes pains to please, whether he be American or German, Japanese or British, has gone a long way towards deserving the order and towards getting it. Besides, tables can be bought or compiled that will save most of the trouble in calçulation. The money units of other countries will be named when we come to Foreign Exchange. As regards weights and

measures, the metric or French system has a very wide vogue in Europe and in other parts; so we give here three of the chief metric units and their English equivalents—

The Metre	= approx	39·37 inches, or about $1\frac{1}{10}$ yards
,, Kilogram —	,,	2·20 lbs; the "demi kilo" being about $1\frac{1}{10}$ lbs
,, Litre -	,,	1·76, or $1\frac{3}{4}$ pints

These, like the franc and the dollar, are subdivided or multiplied into lower or higher units on the decimal principle. The names of the subdivisions of the metre are, decimetre (0·1), centimetre (0·01), and millimetre (0·001). The kilometre (1,000 metres) is the multiple in commonest use. In naming parts and multiples of the gramme and the litre, the same prefixes are employed.

14. **Consular Invoices and Certificates of Origin.** The preceding South African invoice must be accompanied by a *certificate of value and origin* in form like the following—

I, ____
of____suppliers of the goods enumerated in this invoice amounting to________________ hereby declare that I have the authority to make and sign this certificate on behalf of the aforesaid suppliers and that I have the means of knowing and do hereby certify as follows—

VALUE

1. That this invoice is in all respects correct and contains a true and full statement of the price actually paid or to be paid for the said goods, and the actual quantity thereof.

2. That no different invoice of the goods mentioned in the said invoice has been or will be furnished to anyone; and that no arrangement or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser, or by anyone on behalf of either of them either by way of discount, rebate, compensation, or in any manner whatever other than as fully shown on this invoice.

3. That the domestic values shown in the column headed "Current Domestic Values" are those at which the above mentioned firm or company would be prepared to supply to any purchaser for home consumption in the country of exportation and at the date of exportation identically similar goods in the usual wholesale quantities, at ________________subject to______ per cent. cash discount and that such values include the cost of outside packages, if any, in which the goods are sold in such country for domestic consumption.

4. That the said domestic value includes any duty leviable in respect

of the goods before they are delivered for home consumption, and that on exportation no drawback or remission of duty will be allowed by the revenue authorities in the country of exportation.

ORIGIN

5. That every article mentioned in the said invoice has been wholly produced or manufactured in____________________

**Dated at London this*______*day of*________________19__

*Witness*____________________ *Signature*________________.

FORM OF CONSULAR INVOICE FOR U.S.A.

(outside—front)

PURCHASED BY IMPORTER.

*Invoice No.*___*issued in* {Triplicate / Quadruplicate

*Certified*________________, 19

Here mark the forms "Original," "Duplicate," and "Triplicate" respectively—

....

AMERICAN CONSULAR SERVICE

AT

LONDON, ENGLAND.

*Date*________________, 19 .

*Seller*____________________

____

*Purchaser*__________________

____

*Name of vessel or railroad*________

____

Port of Shipment, LONDON.

*Port of arrival*________________

*Port of entry*_________________

*Amount of Invoice*____________

*Kind of goods*________________

____

CUSTOM-HOUSE INDORSEMENT.*

No.__________

*Importer*__________________

*Vessel*____________________

*From*_____________________

*Arrived*____________________

Kind of Entry.

____

Marks, Quantity, and Contents:

* Consular officers will leave all of above indorsement blank. It is to be filled in only at the custom house at the port of entry.

Form of Consular Invoice for U.S.A.

(outside—back).

(Form No. 110.)

CONSULAR CERTIFICATE

(Date)[1] ____________________

I do hereby certify that the invoice described in the indorsement hereof was this day produced to me by the signer of the annexed declaration.

I do further certify that I am satisfied that the person making the declaration hereto annexed is the person he represents himself to be, and that the prices given in the invoice agree with the actual market value or wholesale price of the merchandise described in the said invoice in the principal markets of the country at the time of exportation, excepting as noted by me upon said invoice, or respecting which I shall make special communication to the proper authorities.

I further certify ____________________

____

____

____

____

____

____

____

that a fee of $ ______ United States gold, equal to ______ (Local currency) has been paid by affixing stamps to the duplicate copy of this document.

Witness my hand and seal of office the day and year aforesaid.

____

American Deputy-Consul-General, London, England.

Directions.

1 Date

2 Full names of Deponent.

3 'Purchaser' or 'Seller.'

4 Port.

5 Date

6 Deponent's Signature.

(Form No. 138.)

Declaration of Purchaser or Seller or duly authorized Agent of either.

I [2], ____________________ the undersigned, do solemnly and truly declare that I am the[3] ____________ (Purchaser or Seller) of the merchandise in the within invoice mentioned and described; that the said invoice is in all respects correct and true, and was made at the place named therein, whence said merchandise is to be exported to the United States of America; that said invoice contains a true and full statement of the time when, the place where, and the person from whom the cost th was purchased, and the actual same ereof, price actually paid or to be paid therefor, and all charges thereon; that no discounts, bounties or drawbacks are contained in said invoice but such as have been actually allowed thereon; that no different invoice of the merchandise mentioned in said invoice has been or will be furnished to any one, and that the currency in which said invoice is made out is that which was actually paid or is to be paid for said merchandise.

I further declare ____________________

____

____

____

____

____

I further declare that it is intended to make entry of said merchandise at the port of [4]

____

in the United States of America.

Dated at LONDON, England, this [5] ________ day of ____________ 19

[6] ____________________

A certificate of origin and value is required also for other parts of Africa, for Canada, Australia, and New Zealand. It is commonly printed on the back of the invoice form, and is completed by the shipper before the invoice is despatched. In the colonies and in several foreign countries, merchandise of British origin or manufacture is allowed to pass in on the lowest customs rates.

South American and other countries require special *Consular Invoices* to be made out, usually in the language of the importing country, on special forms to be certified by the foreign country's Consul in the place of export, and on payment, of course, of the appointed fee. The United States also requires a consular invoice. On the inside of this is the ordinary export invoice form. On the outside, at the front, are the forms shown on page 163; and at the back the Consul's certificate and the seller's declaration shown on page 164. One copy at least of the set is returned to the shipper so that he may post it to the buyer of the goods; and another is sent by the Consul to the customs office at the port of entry in the States. Invoices certified by their Consuls are required by these countries for the compilation of imports statistics. The declarations demanded are to ensure the truth of the invoices, and to prevent fraud on the customs offices of the countries and on the persons importing the goods. Any error made on such an invoice in the classification of the goods according to the foreign tariff, or any discrepancy between the particulars on the invoice and the goods themselves, will lead to the infliction of a fine, and to delay in the releasing of the goods by the customs authorities abroad. When the exporter needs assistance, he should apply to the foreign Consuls here.

CHAPTER XV

FOREIGN TELEGRAMS

1. **International Rules.** By the regulations of the International Telegraph Convention, foreign and colonial telegrams may be written in three different ways. These are—

(1) ***Plain Language***, that is, in words, figures, or letters used in their regular meanings, the telegrams being written in any of the principal European languages and in the ordinary Roman characters we use in writing English.

(2) ***Code Language***, where the telegrams are composed of pronounceable groups of letters that are not real words, or of real words used in other than their ordinary significations, and therefore not making plain or connected sense.

(3) ***Cipher***, which consists of groups of figures or of letters having a secret meaning, or not fulfilling the conditions of plain language or code. Letters and figures cannot be combined in one group.

In counting the words, fifteen letters are allowed in any single word when plain language is used, and any excess beyond that number is charged for extra. Code language requires that no word or letter-group shall exceed ten letters in length, and plain language inserted in a code telegram is charged for at the same rate as the code. For cipher telegrams, five figures or five letters are counted as one word. In all three kinds every isolated letter or figure is taken as a separate word, and figures or other symbols, or both combined, used to express numbers or marks count five to the word. Thus N23/32 and 147·25 each contain six symbols and would each be charged as two words. But in addresses, the name of the office of destination counts as one word only, though it may consist of more than one word or may contain more than fifteen letters. And, if the county, province, state or district must be added to distinguish the office from another of the same name, the whole designation is charged for as if

it were a single word. Irregular or abbreviated spellings are inadmissible ; but a few abbreviated instructions, to be written in front of the address, are authorized. For example, RP (réponse payée) may be used for "reply paid," and TR (télégraphe restant) signifies "to be called for at office of destination." Each authorized abbreviation is chargeable as one word. When sending to a country where English is not spoken, it is undesirable to write *c/o* for "care of" ; the French word *chez* may be used instead.

2. Telegraph Routes. The Postmaster-General has a monopoly of public telegraphs in Great Britain. To other countries telegraphic communication is effected by state-owned or by company-owned services—in some cases by "wireless," in others by cable. For telegrams outside the European system the *Postal Guide* names the following routes—

1.	*Via* Commercial	Commercial Cable Co.
2.	,, Western Union	Western Union Telegraph Co.
3.	,, P.Q.	French Telegraph Co.
4.	,, Marconi	Marconi Wireless Telegraph Co.
5.	,, Imperial	Government Imperial Cable.
6.	,, Spanish	Direct Spanish Telegraph Co.
7.	,, Talisman	France-Teneriffe—Noronha-Brazil.
8.	,, Eastern	Eastern Telegraph Co.
9.	,, Indo	Indo-European Telegraph Co.
10.	,, Northern	Great Northern Telegraph Co.
11.	,, Egypradio	Government Wireless Oxford-Cairo
12.	,, France	Anglo-French Cables and France.
13.	,, Radio France	Anglo-French Cables and French Wireless.

The first five routes are to North America, the Marconi service working by wireless, the others by cable. At their western ends these routes have connections to South America ; but a direct line also runs *via* Lisbon to Pernambuco in Brazil. South America has further connections with Europe *via* Teneriffe. To the East, starting from London, the Eastern Telegraph Co. runs by way of the Mediterranean, the Red Sea, Aden, India, and Singapore, to China and Japan, and to Australia and New Zealand. The Indo-European route through Odessa and the Persian Gulf also serves India, the

Far East, and Australasia. From Scotland, through Copenhaggen, the Great Northern route runs to Russia, Siberia, China, and Japan. South Africa is reached *via* the Eastern Atlantic and the West Coast of Africa ; also *via* the East African coast from the Eastern Co.'s station at Aden.

The Imperial Cable of the British Government operates between the Central Telegraph Office, London, and Halifax, Nova Scotia. At Halifax it connects (1) with the Canadian Pacific Railway Company's telegraphs to all parts of Canada, (2) with Bermuda, Jamaica, and the Government's cable and wireless systems in the West Indies, (3) with a direct line to Bamfield, near Vancouver, and the state-owned Pacific Cable of Canada, Australia, and New Zealand. Between the Imperal Wireless Stations near Oxford and near Cairo telegrams are transmitted to or from Egypt, Abyssinia, East Africa, Iraq, Palestine, and Syria. Messages wirelessed to Egypt can be handed on at Cairo to the Eastern Company's cable for places farther East. The Post Office has, also, wireless services to the European Continent, and services of radiotelegrams to be transmitted from coast stations at home and abroad to ships that are on the sea. Services by wireless are usually a little cheaper than those by cable.

The Post Office accepts foreign telegrams for transmission by the various companies. The messages must be written on the special foreign telegraph forms of the Post Office, or on the companies' forms. Telegrams may, of course, be handed to the companies themselves in places where they have offices, in London and the more important provincial centres.

3. Rates for Foreign Telegrams. The services are divided into (1) the European system; (2) the Extra-European system. Included in the first, besides Europe, are Russia in Asia, Turkey in Asia, French possessions in North and West Africa, the Canary Islands and the Azores. Reduced rates are granted for press telegrams For commercial and private messages, also, there is in operation on the Extra-European routes, a system of deferred rates by which telegrams are accepted, as a rule, at half the ordinary rates. The deferred

rate is conditional on the telegrams being delayed, so that preference can be given to fully-paid traffic.

Telegrams at deferred rates must bear in front of the address the chargeable indication LCO, LCF, or LCD, according to whether they are written respectively in the language of the country of origin, in French, or in the language of the country of destination. Facilities are offered, too, for Night Letter (TLT), Day Letter (DLT), and Week-end Letter (TWT) Telegrams to British Overseas Dominions and the United States at lower rates still. These letter telegrams must also

Specimen European Rates.—Per Word.

	d.
France, Belgium, Switzerland, Italy, Spain, Holland, Denmark, Norway, and Sweden	2½
Germany, Portugal, Gibraltar, and Algiers	3
Austria, Poland, Czecho-Slovakia, and Yugo-Slavia	3½
Hungary, Bulgaria, Roumania, and Tangier	4
Greece and Canary Islands, 4½d., Russia, 5½d., Turkey	6

The minimum charge for a telegram is 10d.

Specimen Extra-European Rates.

	Ordinary	Deferred	Letter Telegrams		
	per word s. d.	per word s. d.	class	Twenty Words s. d	Each extra Word s. d.
Egypt (Alexandria, etc.)	1 0	6	—	—	—
India and Burma	1 8	10	DLT	8 4	0 5
Malay Peninsula	2 10	1 5	DLT	14 2	0 8½
China	3 0	1 6	—	—	—
Australia	3 0	1 6	DLT	15 0	0 9
			TWT	12 6	0 7½
New Zealand and Norfolk Is.	2 8	1 4	DLT	13 4	0 8
			TWT	11 8	0 7
Union of South Africa	2 0	1 0	DLT	10 0	0 6
Bermuda, Jamaica	2 2	1 1	TWT	11 8	0 7
Argentine Republic, Chile, Uruguay, etc.	2 9	1 4½	—	—	—
Brazil, Pernambuco Town	1 7	9½	—	—	—
Do., other places	2/4-5/-	1/2-2/6	—	—	—

SPECIMEN EXTRA-EUROPEAN RATES —(CONTD.)

	Ordinary per word		Deferred per word		Night and Week-end: Twenty words		Night and Week-end: Each extra word
	s.	d.	s.	d.	s.	d.	d.
CANADA—							
Alberta	1	3		7½	7	10	5
Manitoba	1	2		7	7	0	4½
Nova Scotia		9		4	4	6	3
Yukon	2	6	1	3	—	—	—
UNITED STATES—							
New York		9		4½	5	0	3
New Orleans	1	1		6½	6	8	4
California	1	4		8	8	4	5
Alaska	2	5	1	2½	—	—	—

bear the indication (chargeable as one word) of the class to which each belongs. Night letter telegrams are delivered normally on the following business day, day letter telegrams after forty-eight hours, and week-end letter telegrams on Mondays.

A full list of rates and the full regulations will be found in the Post Office Guide, to which the reader is referred.

4. **Code Messages.** The deferred rates and the reduced rates for week-end messages have only recently been instituted, and some of the ordinary rates were, not many years ago, much higher than they are now. In these circumstances, a plain language telegram of average length to China or to Argentina was rather a costly means of communication. Merchants, however, developed the use of codes and were able to conduct business over the cables without paying anything like the normal charge. It is true that each word written in a code cablegram is paid for at the full rate in force; but the written words are used only as symbols out of which a very much longer message can be extracted.

The greater the distance to a country and the longer the time taken to reach it by post, the greater is the need for a more rapid means of business intercourse. Yet it is to the most distant and least accessible lands that the telegraphic charges are the highest. Code telegrams save a very large part of these charges; and the saving is effected by substituting one word, or one pronounceable group of letters or, perhaps, a group of figures, for each phrase, sentence, or even series of sentences that the message comprises in its plain language form. The A.B.C. (Fifth and Sixth Editions), Lieber's, and the Western Union are widely used general codes ; but there are many others including the Marconi International in several languages. The most ingenious codes are private compilations constructed specially to fit the particular requirements of a single business. The examples that follow are not taken from any actual code, but are given merely as illustrations of how the codes are devised.

5. Example of a Simple Code. By consulting the table that follows, the reader will be able readily to " decode " these two simple illustrations of code messages—

(*a*) *Outward cablegram:*

Refero landing nation affective

(*b*) *Answer:*

Reform favorless

It will be noticed in the table that phrases concerning *attention* are all translated in code-words beginning with A, the initial letter of attention; those about *letter* into words beginning with L; about *February*, *November*, and *remittance* into words with the initials, F, N, and R, respectively. In the full code vocabulary, both subjects and code-words would be arranged in alphabetical order, so as to be easily found on reference to the code book. The five-figure numbers placed against each code-word are given, as an alternative to the word, when cipher messages are required. Each figure group may be replaced by a group of letters by means of a secret key

TABLE OF CODE WORDS.

03416	Affect	= is (are) receiving careful attention			
03417	Affecting	= will give prompt attention			
03418	Affection	= careful attention is necessary			
03149	Affective	= immediate attention is requested			
15821	Favor	= Feb. 1.	16104	Nature	= Nov. 10
15822	Favorable	= Feb. 2	16105	Naturally	= Nov. 11
15823	Favoring	= Feb. 3	16106	Nativity	= Nov. 12
15824	Favorless	= Feb. 4	16107	Nation	= Nov. 13
21425	Land	= in (according to) our letter of____________			
21426	Landing	= in (according to) your letter of____________			
21427	Landless	= in answer to your letter of______________			
21428	Landscape	= please refer to our letter of______________			
32750	Refero	= send at once remittance promised			
32751	Refino	= remit the proceeds by telegraph			
32752	Reflect	= please get__________to send remittance			
32753	Reform	= remittance was posted on__________			

previously agreed upon between sender and receiver of the telegram. Assuming that the secret key is—

1	2	3	4	5	6	7	8	9	0
G	O	L	D	E	N	S	T	A	R

then, with telegraphic addresses added, the code messages above would appear in cipher, thus—

(*a*) Orion Durban,
loser ogdon gngrs rldga—Nimrod

(*b*) Nimrod Manchester,
losel getod — Orion.

At 2s. 6d. a word, the costs of these messages either in code or in cipher, would be: (*a*) 17s. 6d.; (*b*) 12s. 6d. The same messages in plain language could hardly be condensed more than in—

(*a*) Orion Durban—Send immediately remittance promised November thirteen—Nimrod.

(*b*) Nimrod Manchester.—Remittance posted February four.—Orion.

The costs then would be: (*a*) 22s. 6d. ; (*b*) 17s. 6d. ; at the ordinary rate, or 5s. each above the charge for code. And, as the saving takes place in the message and not in the address, it would be proportionately more the longer the telegram required. It is here that the usefulness of the deferred rates comes in. By sending the messages at deferred rate, incurring a delay of not more than twenty-four hours, the charges are halved, and (*a*) would cost, say, 11s. 3d., as against 17s. 6d. for code or cipher ; (*b*) say, 8s. 9d. as against 12s. 6d. Still, it would be impossible for many messages or parts of messages to be reduced in plain language as much as those above. For example, the question: " What is the earliest date that you can ship . . . ? " could be expressed by one word in code. In plain language, the sense would not remain clear if condensed into fewer words than: " How soon can you ship " or " Name earliest shipment date "—four words at the least against one.

6. Five-letter Codes. The A.B.C., Sixth Edition, is a five-letter code, that is, one in which each code word consists of only five letters. As ten letters are allowed to each word in a code telegram, two five-letter code words can be joined together to form one word as telegraphed. For example, the two ten-letter telegraphic words PEPHAYADMO and YAGAIPFASY are each chargeable as one word only, though each is a combination of two code words. They are taken from the A.B.C., Sixth Edition, and their meanings are as follows—

PEPHA = Do not deliver the goods.
YADMO = Before payment is made.
YAGAI = If payment not made.
PFASY = Sell the goods on best possible terms.

It will be seen, therefore, that this method of using five-letter code words, and of joining them in twos, permits a telegram to be sent, as far as the body of the message goes, at half the rate of ten-letter code. A vast number of five-letter pronounceable groups is available, and these are much less liable to errors in transmission than are cipher telegrams in unpronounceable letters or in figures.

Another five-letter code book in general use is Bentley's, from the preface to which the illustration below is taken—

Price is too high	=	ojavk
Others offering less	=	nefpa
$7\frac{1}{16}$ pence	=	shizt
Best price obtainable	=	olwer

The four phrases would be telegraphed and be charged as only two words, viz.—

Ojavknefpa shiztolwer

Address of destination would, of course, be prefixed, and name of sender would usually be appended.

7. Figure Combinations and Single Word Messages. Our third example will illustrate how a private telegraph code may be constructed for a particular kind of business, so that the utmost meaning shall be packed into one transmitted word. Codes of this kind are compiled and sent out by English merchants to their foreign and colonial customers to be used by them in the ordering of cotton piece goods and similar merchandise. The principle of construction here is that the order to be telegraphed is expressed first of all in a group of ten figures, that—

The pattern number	takes	4	figures,	the 1st	to 4th	of the	group
,, price per yard	,,	2	,,	,, 5th	,, 6th	,,	,,
,, quantity, with time of shipment	,,	3	,,	,, 7th	,, 9th	,,	,,
A check figure	,,	1	,,	,, 10th		,,	,,

But letters are much less likely than figures to suffer mutilation in transmission; and ten letters, if they can be pronounced together, may be sent for the same charge as five figures. The requisite ten figures, therefore, being selected and placed in proper sequence, are converted into a pronounceable group of the same number of letters. As the method of collating and converting the figures is always the same, and is pre-arranged between the merchant and his customers, no difficulty arises about how messages received should be decoded.

(1) *Pattern Numbers.* The first four of the group of ten

figures being used for the pattern number of the cloth ordered this allows a range of 0000 to 9999 = 10,000 different pattern descriptions. Customers have the current patterns by them with the appropriate number affixed to each one.

(2) *Price Table.* Two figures, the fifth and the sixth of the group, are allotted to represent the price. It will be observed

TABLE OF PRICES.

	6d. and under in 16ths of 1d.	Over 6d. and under 1s. in 16ths of 1d.	Over 1s. and under 2s. in 8ths of 1d.	Over 2s. and under 4s. in 4ths of 1d.
	d.	*d.*	*d.*	*d.*
00	$\frac{1}{16}$ the yard	$6\frac{1}{16}$ the yard	$12\frac{1}{8}$ the yard	$24\frac{1}{4}$ the yard
01	$\frac{1}{8}$ "	$6\frac{1}{8}$ "	$12\frac{1}{4}$ "	$24\frac{1}{2}$ "
02	$\frac{3}{16}$ "	$6\frac{3}{16}$ "	$12\frac{3}{8}$ "	$24\frac{3}{4}$ "
03	$\frac{1}{4}$ "	$6\frac{1}{4}$ "	$12\frac{1}{2}$ "	25 "
04	$\frac{5}{16}$ "	$6\frac{5}{16}$ "	$12\frac{5}{8}$ "	$25\frac{1}{4}$ "
05	$\frac{3}{8}$ "	$6\frac{3}{8}$ "	$12\frac{3}{4}$ "	$25\frac{1}{2}$ "
15	1 "	7 "		
16	$1\frac{1}{16}$ "	$7\frac{1}{16}$ "		
17	$1\frac{1}{8}$ "	$7\frac{1}{8}$ "		
18	$1\frac{3}{16}$ "	$7\frac{3}{16}$ "		
19	$1\frac{1}{4}$ "	$7\frac{1}{4}$ "		
31	2 "	8 "		
32	$2\frac{1}{16}$ "	$8\frac{1}{16}$ "		
33	$2\frac{1}{8}$ "	$8\frac{1}{8}$ "		
47	3 "	9 "		
95	6 "	12 "		*(This table is incomplete)*

that in our Price Table, the same two figures are made to indicate any one of four different prices; but, as the table shows, there is always a considerable difference between any two of the four. Further, the customer has by him the price that was given with each pattern, and, although that may not be the price actually ruling now, it is sufficiently near to prevent confusion. The two price figures give a range of 00 to 99 = 100, which multiplied by 4 = 400 distinct prices available in the code.

(3) *Quantity, with Shipment Date.* Three figures, the seventh, eighth, and ninth of the group of ten, are used in the next table on the tabular principle of Section 6 above, to combine in one expression the quantity required and the month in which the goods are to be shipped. The range 000 to 999 permits of 1,000 varieties in the customer's requirements under these heads. Each piece of cloth is understood to be of the length usual in the particular market to be supplied.

Now suppose that a customer abroad wishes to telegraph in the month of May for 100 pieces of Pattern No. 1264 at $8\frac{1}{8}$d. the yard, shipment to be made some time during the following July. He would proceed to build up his group of ten code figures thus—

Pattern number . . .	1264
Price figures	33
Quantity and shipment . .	606
First nine figures	1264 33 606

The tenth and last figure he would find by adding the first nine together and setting down the units digit of their sum. The sum of the nine figures in this instance is 31; so the complete group would be 1264336061. The use of the tenth figure as a check will be explained presently.

It remains for our customer to turn the ten figures into a pronounceable group of ten letters by means of a Conversion Table like that on page 178. In order that the resulting group of letters shall always be a pronounceable group, the ten figures reached at this stage should be taken two by two consecutively, beginning at the left; and a consonant should be substituted for the first figure of each pair, a vowel for the second. The conversion table, therefore, is constructed so as to yield always a code-word composed throughout of alternate consonant and vowel. Converting his figure group, our imaginary correspondent will arrive at the code-word—

R A G O S E B O C O

The decoding by the recipient simply reverses the procedure that the sender followed. But let us assume that

TABLE OF QUANTITIES AND TIMES OF SHIPMENT.

Time of shipment—where two or more months are named, equal shipments to be made each month	Quantities required—in pieces			10	12	15	20	25	30	40	50	75	100	150	200	250	500			
Immediately . . .	001	051	101	151	201	251	301	351	401	451	501	551	601	651	701	751	801	851	901	951
1 month hence . .	002	052	102	152	202	252	302	352	402	452	502	552	602	652	702	752	802			
1 and 2 months hence .	003	053	103	153	203	253	303	353	403	453	503	553	603	653	703	753				
	004	054	104	154	204	254	304	354	404	454	504	554	604	654	704					
	005	055	105	155	205	255	305	355	405	455	505	555	605	655						
2 ,, ,, .	006	056	106	156	206	256	306	356	406	456	506	556	606							
2 and 3 ,, ,, .	007	057	107	157	207	257	307	357	407	457	507	557								
	008	058	108	158	208	258	308	358	408	458	508									
	009	059	109	159	209	259	309	359	409	459										
3 ,, ,, .	010	060	110	160	210	260	310	360	410											
3 and 4 ,, ,, .	011	061	111	161	211	261	311	361												
	012	062	112	162	212	262	312													
	013	063	113	163	213	263														
5 ,, ,, .	014	064	114	164	214															
etc.																				

(This table is incomplete)

in transmission the code-word has been changed to RUGOSEBOCO. This would give us the figures 9264336061, and the pattern number is now altered—so greatly altered in magnitude that the price indicated is probably not suitable to the higher number. Besides, as the first nine digits now add to 39, our check figure points out clearly that something

CONVERSION TABLE.

	a	e	i	o	u
b	00	20	40	60	80
c	01	21	41	61	81
d	02	22	42	62	82
f	03	23	43	63	83
g	04	24	44	64	84
h	05	25	45	65	85
k	06	26	46	66	86
l	07	27	47	67	87
m	08	28	48	68	88
n	09	29	49	69	89
p	10	30	50	70	90
q	11	31	51	71	91
r	12	32	52	72	92
s	13	33	53	73	93
t	14	34	54	74	94
v	15	35	55	75	95
w	16	36	56	76	96
x	17	37	57	77	97
y	18	38	58	78	98
z	19	39	59	79	99

is wrong. Should a revision of the decoding process fail to cast out the error, and should we be unable ourselves to discover similar pattern and price numbers that do correspond to each other, it would be necessary to apply to the cable company, or to the Post Office, for a repetition of the telegram. Subject to certain conditions, the cost of a telegram will be refunded if the telegram was rendered useless through inaccurate transmission.

CHAPTER XVI

IMPORTS AND THE MARKETING OF IMPORTED PRODUCE

1. **The Persons Engaged.** As explained in Chapter XIV, goods are exported from this country by agents buying and shipping the goods for foreign principals, by merchants dealing on their own account, and by manufacturers supplying their customers abroad without assistance from agents or merchants on this side. Similarly, imports are handled in this country by agents of the foreign exporters of the goods, by merchants buying and selling for themselves, and by manufacturers who have purchased abroad the raw materials they need for the turning out of the various products in which they specialize. In the import trade, more than in export, the agent or broker plays a prominent part. Especially in regard to produce as distinct from manufactured goods is this the case. Wool, raw cotton, timber, wheat, rice, tea, coffee, green and dried fruits all commonly pass through the hands, or at least under the control, of intermediate brokers or merchants or both before they reach the wholesale distributors here. The progress from producer to consumer may be summarized in the way we did with exports, thus—

	1. Grower or producer 2. Produce collector 3. Export Merchant	Abroad
At home.	4. Import merchant 5. Wholesale distributor 6. Retail distributor 7. Individual consumer	

But this representation of the course of supply is incomplete, for it leaves out of view the parts taken by the banks, the shipowners, the insurance offices, the dock authorities, and the railways, in both countries. Also it leaves out of view the auctioneers or auctioneer-brokers who form an integral part of the produce markets, and sell the goods as agents of

the importing merchants. Because we live in a densely populated and a pre-eminently manufacturing country, our imports are comprised very largely of food-stuffs and produce of the kinds just named. And most of them come here unordered, being shipped from abroad to find a market in the port of London or of Liverpool, much in the same way as farmers in this country regularly have their produce carted to their local markets and sold to the best buyers that happen to turn up. Let us look at a few of these commodities separately.

2. **Wool** is grown in all continents. We have, of course, a native growth, and abroad our main source of supply is Australia and New Zealand. South American wool has found its way mostly to French and German centres through the port of Antwerp. South Africa is sending us wool on an increasing scale. Of the supply from the Antipodes, the larger part is sold each year in a rotation of auctions held in the seaport towns of Australia, Tasmania, and New Zealand. The remainder is disposed of in England. There are wool sales in Liverpool; but the Wool Exchange in Coleman Street, London, is our greatest wool market, taking the Australasian imports and a miscellaneous assortment as well from many parts of the globe. Both the London and Australian sales are attended by buyers from this country, the European continent, and the United States.

Bales of wool that arrive in the Port of London lie in the dock warehouses until claimed by the purchasers to whom they are knocked down at the periodic auctions. In the meantime, the importing merchants are in touch with brokers who are members of the Wool Exchange, and whose special business is the selling of imported wool in the London auctions. The latter procure samples from the bales, report upon the quality, classify the lots for sale, issue a descriptive catalogue, and arrange amongst themselves in what order the auctions shall proceed. The London Wool Sales take place about every two months, and last two or three weeks at a time. They begin at four in the afternoon, the intention being

that the buyers shall be free in the mornings to inspect at the dock warehouses the lots to be offered each day. Prices vary considerably according to the quality of the clip. Bradford and the West Riding towns for worsted and woollen cloths, and Leicester for hosiery, are our two most important cêntres of woollen manufacture.

3. **Sale Procedure.** Taking the routine of sale and delivery from the beginning, we may say that the first thing to happen would be the arrival in London of (1) ***an invoice*** from Australia together with a specification or list of bales shipped, showing bale numbers, weights, and descriptions.

I.—AUSTRALIAN INVOICE FOR EXPORTED WOOL.

Invoice of 100 Bales Greasy Wool shipped by SS. "Orient" from Sydney to MESSRS. G. W. MORRISON & CO., *at London, for sale on account of the undersigned.*

		£	s.	d.
M & G	100 Bales Greasy Wool 38,350 lbs. net @ 10½d.[1] .	1,677	16	3
LONDON 1/100	Freight payable in London; insurance effected here. SYDNEY. *10th May, 19...*			
	MURDOCH & GIBB.			
E. & O.E.				

The invoice and specification would be accompanied by (2) a copy of the shipping company's ***bill of lading.*** These documents would come by overland route from Brindisi or one of the other Mediterranean ports of call for homeward bound mail steamers from Australia, and would reach London before the ship and cargo. They would be received by the merchants to whom the Australian exporters had consigned the shipment, or by the London office of the Commonwealth bank, which had made an advance against the wool in Australia. They would, in the latter case, be accompanied also by (3) ***a draft*** for the amount advanced, and the

[1] For current prices see the commercial columns of the daily Press.

II.—PORT OF LONDON LANDING ACCOUNT.

(Details of the weights appear on the back of this form.)

PORT OF LONDON AUTHORITY.

______________________________*Dock*

______________________________*Department*

__________________*19*___

—LANDING ACCOUNT—

of ____

entered by ____

______________________________on the____________ ____________*19*____

Per the ship ________________________________
Master ________________________________ } Rotn. No. ________
From ________________________________

Rent commences on ______________________________*19*____

Dock Nos.	Quantity	Total Landing Weight			
		cwt.	qr.	lb.	
					Gross
					Tare
					Net

Clerk			
Examiner			

merchants would probably be given possession of the bill of lading on their accepting the draft. When the ship had arrived and the bales were unloaded, the Port Authority (or the wharfinger, if the wool was unloaded at a wharf) would make (4) *a Landing Account* to show the numbers of the bales and the weight of each when landed. Damaged bales would be listed separately, and a Certificate of Damage given by the Dock Authority's surveying officer.

The wool would be warehoused to await the next auction sales. The freight being paid to the shipowning company, and the bill of lading surrendered, the consignees would be given (5) *a Dock Warrant*, a document that, like a bill of lading, is the title to the goods named in it, and that is transferable by endorsement to the future purchaser of the wool. This document would have to be given up before possession of the merchandise could be obtained. The importers would see to the wool being covered by (6) *a fire insurance policy*, for the risk whilst the bales are lying in the warehouse is theirs until the ownership passes to a purchaser. As soon as a sale is effected the selling brokers send (7) a *Sold Contract Note* to the merchants on whose behalf the sale is made, and a *Bought Note* to the buyer. A little later the merchants will receive (8) the *Brokers' Account Sales*. This will show the price obtained, the brokers' commission, and their charges, and the day when payment will be made. The brokers also send (9) an *Invoice to the Buyer*, again naming the date of payment, which in both cases falls in about a fortnight from the day of sale. Last of all, where the wool has been consigned for sale on the Australian exporters' account, (10) the *Importers' Account Sales* must be posted to their principals in Sydney. It is prepared by the consignees of the wool; it sets out the full value realized, shows deducted the consignees out-of-pocket expenses, their commission, and the amount of the draft accepted by them, if there was one, any balance on the right side being the amount still due. What some of the documents would look like is shown by the actual and conjectural specimens interspersed on adjacent pages.

III.—PORT OF LONDON DOCK WARRANT.

PORT OF LONDON AUTHORITY.

Dock lot *Rotn. No.*________

*No.*________ *Dated this*___,___________

WARRANT for____

imported in the______________________Master______________________

from__________________________entered by______________________

on the________________________deliverable to____________________

or Assigns by endorsement hereon.

3d STAMP

____________________and all other charges from the date of this Warrant.

Marks	Numbers		Weight						Marks			Weight					
			Gross			Tare						Gross			Tare		
	Original	Dock	Cwt.	qr.	lb.	Cwt.	qr.	lb.		Original	Dock	Cwt.	qr.	lb.	Cwt.	qr.	lb.

*Ledger*__________ *Fo.*__________

____________________*Clerk* ____________________*Warrant Clerk.*

IV.—Brokers' Contract Note.

CONTRACT.

25 Coleman Street,
London, E.C.2. *20th July, 19..*

Messrs. G. W. Morrison & Co.,
26 Basinghall St., E.C.2.

We have sold on your account by public auction this day, *ex* SS. "Orient" from Sydney—

M & G

47 bales Greasy Wool @ 1s. 0½d. the lb.
53 „ „ „ „ 1s. „ „

Prompt. *6th Aug., 192–.* Huggins & White.

V.—Brokers' Invoice to the Buyer.

25 Coleman St.,
London, E.C 2. *20th July, 19..*

Messrs. Hudson, Sykes & Co., Ltd.,
Prospect Mills, Bradford.

Invoice from HUGGINS & WHITE

for 47 bales Greasy Wool
ex SS. "Orient" from Sydney
sold on account of our principals.

M & G 21/36 57/87

Lot No.	No of Bales	Tare	Gross			Tare and draft*			Net			lbs.	Price			
			Cwt.	qr.	lb	Cwt.	qr	lb.	Cwt.	qr.	lb.			£	s.	d.
232	47	12	167	–	3	6	2	3	160	2	–	17,976	1/0½	936	5	–
							Samples		47	@	1/0½	= £2	8 11			
									Less ⅓rd				16 4			
														1	12	7
							Lot money							–	1	–
														937	18	7
E. & O.E.																
		Prompt *6th Aug.*, 19..														

* *The tare allowed is 12 lbs on each bale, and the draft 1 lb. for each cwt.*

4. Tea is exported chiefly from India, Ceylon, China, and Japan; but it is grown also in Natal, Java and other places. Large quantities of Japanese teas go to the United States and

VI.—Brokers' Account Sales.

Account sales of 100 bales Greasy Wool *ex* SS. "Orient" from Sydney, sold by auction 20th July, 192–, for account of Messrs. G. W. Morrison & Co

M & G

1/100.

Lot No.	No. of bales	Gross Cwt.	Gross qr.	Gross lb.	Tare and draft Cwt.	Tare and draft qr.	Tare and draft lb.	Net Cwt.	Net qr.	Net lb.	lbs.	Price	£	s.	d.
232	47	167	–	3	6	2	3	160	2	–	17,976	1/0½	936	5	–
233	53	188	2	7	7	1	13	181	–	22	20,294	1/-	1,014	14	–
		355	2	10	13	3	16	341	2	22	38,270				

Tare, 12 lbs. the bale.
Draft, 1 lb. the cwt.

	£	s.	d.	£	s.	d.
Samples—47 @ 1/0½ =	2	8	11			
53 @ 1/- =	2	13	0			
	5	1	11			
Less ⅓rd	1	14	0			
				3	7	11
				1,954	6	11
Sale Expenses, 100 bales @ 4d. =	1	13	4			
Brokerage @ ½% =	9	15	4			
				11	8	8
E. & O.E.				1,942	18	3

Prompt. *6th Aug.*, 19..

25 Coleman St., E.C.2. *27th July*, 19...
Huggins & White.

to Canada. Our supplies come mostly from Assam and other parts of India, from Ceylon and China, London being the port of arrival. Before the advent of steam, and the opening

of the Suez Canal, the wool and the tea trades both furnished cargo for some of our finest merchant ships—famous fast-sailing clippers that broke the records of those days for the

VII.—The Merchants' Account Sales.

Account Sales of 100 Bales ◇M & G◇ 1/100 Greasy Wool

ex SS. "Orient" from Sydney, sold at public sale, 20th July, 19.., for account of Messrs. Murdoch & Gibb, Sydney.

Lot No.	No. of bales	Gross Weight			Tare at 12lb. Draft at 1lb.			Net Weight			lbs. net	Price			
		Cwt.	qr.	lb.	Cwt.	qr.	lb.	Cwt.	qr.	lb.			£	s.	d.
232	47	167	–	3	6	2	3	160	2	–	17,976	1/0½	936	5	–
233	53	188	2	7	7	1	13	181	–	22	20,294	1/–	1,014	14	–
		355	2	10	13	3	16	341	2	22	38,270				
			3	16	Samples						100		3	7	11
	100	356	1	26	= 39,926 lbs. gross =						38,370	net	1,954	6	11
					Invoice weight						38,350	net			

Charges—	£	s.	d.	£	s.	d.
Freight on 39,926 lbs. @ ½d.	83	3	7			
Fire Insurance	2	15	6			
Dock and Warehousing Charges	20	13	–			
Sale Expenses @ 4d. the bale	1	14	4			
Brokerage @ ½ % on £1,954 6s. 11d.	9	15	4			
Commission @ 2 %	39	1	6			
				157	3	3
				1,797	3	8

E. & O.E.

London. 10th *Aug.*, 19...

G. W. Morrison & Co.

Australian passage, or raced home from Hong-Kong with the first of the tea season's pickings. The tea is sold at the London Commercial Sales Rooms in Mincing Lane, where coffee, cocoa, sugar, spices, oils, rubber, and other produce,

VIII.—Sold Note for Six Cases Crystallized Fruits.

CONTRACT.

No. 8607. Eastcheap, London, E.C.3
9th Oct., 19..

SOLD to Messrs. Robert Mills & Son, Manchester,
Crystallized Fruits—

2 cases	Apricots,	30 × nom. 8 lbs.,	2s. 10d. lb.,	1st choice—	½ Crystal ½ Glace
1 ,,	Pink and White Pears,	8 lbs.,	2s. 3d. lb.	Extras	
1 ,,	Assorted Fruits	100 × nom. 2 lbs.	48s. 0d. doz.	Extras	
1 ,,	,, ,,	30 × ,, 8 ,,	2s. 3d. lb.	1st Choice	
1 ,,	,, ,,	30 × ,, 8 ,,	2s. 4d. lb.	Extras	

To arrive.

Terms: Duty paid *ex* wharf London; 14 days net.

This contract is subject to the usual conditions of "Force majeure" as recognized on the Continent.

In the event of partial or total failure of and/or damage to crop, destruction of factory by fire, flood, or any unavoidable accident, non-shipment by our seller, the commercial failure of the manufacturers, or strikes causing the suspension of manufacturing and/or curing, or in the event of unavoidable delay, or accident or loss whilst in transit from factory, and/or a port of shipment, or strikes at home or abroad, we are not liable in respect of non-delivery of the whole or any portion of the goods under this contract. Cash against D/O if required. Goods recovered by fire insurance by sellers only till prompt date unless previously paid for or removed. All rices sold on the conditions of the London Wholesale Spice and Rice Dealers' Associations.

Each delivery to be treated as a separate contract. If buyers do not pay at due date, and/or do not sign and return the detachable slip at the foot hereof within seven days, the sellers reserve the right at any time to cancel the whole or any part of this contract.

War Risks: War cancels contract which the sellers are prevented from executing wholly or in part by the outbreak or its results.

It is understood that the sellers shall use their best endeavours to get these goods forward, but should they be unable to effect delivery, contract to be cancelled without any claim against sellers.

Any dispute arising from this contract to be settled by arbitration in London in the usual way.

No purchase or sale contract recognized as valid unless signed by a director of the company.

For G. H. Massingham, Limited,
W. W. Brooks,
Director.

as well as tea, are always being offered at public auction to the wholesale dealers who congregate there.

The procedure of sale and delivery is similar to that for wool, two points excepted. First, at the Wool Exchange the sales are periodic; at Mincing Lane they are continuous. Secondly, wool comes into this country duty free; but tea is subject to customs duty, and is held in bonded warehouses under the control of the customs officers until the duty is paid. In this case, the dock authority weighs the packages under customs supervision. It is on these weights that the duty is levied, and so as to keep the weights unaltered, every sample taken whilst the chests are in bond must be replaced by a portion of equal weight and quality from the merchant's stock outside. The samples are required by the brokers for inspection of the leaf and for tasting the liquor, so that at the sale the tea may be offered by correct description and may bring its proper price.

5. **Cotton.** Lancashire is the home in this country of the cotton textile industry, and the largest market here for raw cotton is the Cotton Exchange at Liverpool. Dealings also take place at the Royal Exchange, Manchester, and in London. The absence of auctions is one feature that distinguishes the sale of raw cotton from that of wool, tea, imported fruits, and some other kinds of produce. An extensive system of regular dealings in "futures" is another. Futures may be defined as sales made now of promises to deliver at specified future times. A "spot" sale is one for present delivery of cotton now in stock; whilst a sale "to arrive" refers to bales that are afloat and on the way. In addition to dealings of these three kinds, spinners not infrequently give orders for quantities to be consigned to them direct from the country of growth. Spot purchases of cotton may be made by *sample*, as wool and tea purchases are; but contracts for futures and orders given direct are effected by *description* of the kinds required. Cotton is of such a nature that it lends itself to a highly elaborated system of grading according to differences of growth and quality, and dealers carry their transactions

through by naming the grades that they buy or sell. The American supply is classified under the following grades—

Ordinary		Mid.	= Middling
G.O.	= Good ordinary	F.M.	= Fully middling
F.G.O.	= Fully good ordinary	G.M.	= Good middling
L.M.	= Low middling	F.G.M.	= Fully good middling
F.L.M.	= Fully low middling	M.F.	= Mid-fair

Egyptian growths are graded thus—

F.	= Fair	G	= Good
G.F.	= Good fair	F.G.	= Fully good
F.G.F.	= Fully good fair	Fine, and Extra fine	

Brazilian, Peruvian, Indian, and other growths are classified after the same manner.

In Liverpool, cotton is sold at so many pence and hundredths of a penny per pound. Thus, on the day of writing, Middling American is quoted at 7·44 pence. An increase of, say, 0·20 pence per lb. is described as a rise of 20 points. By the rules of the Liverpool Cotton Association, the futures contract is made for one grade only—at the present time it is middling. On maturity of the contract, the nearest quality available would be tendered in delivery, and if this is either above or below the futures grade, then points must be added on or taken off the contract price.

Dealings in futures are of a more or less speculative character; still it is not altogether in the gambling spirit that they are indulged in. Gains on the cotton exchange are small, being but fractions of a penny on the pound; and business is rendered profitable only by the volume and the rapidity of the turnover. But as the margins are so meagre, an unexpected rise or fall will quickly turn what seemed a gain into a loss. Dealings in futures are resorted to for protection against the fluctuations of the market. A simple case would be that of the spinner who, on quoting for yarn to be spun and supplied by him six months from now, would base his quotation on the present price of certain futures in the raw cotton market; and who, on securing the order for the yarn, would immediately buy

in against the order sufficient futures deliverable at the time he would need them. The case of the merchant on exchange is not so simple. Suppose he *buys* a quantity of cotton to be shipped from America two or three months hence, and hopes to sell it soon at a narrow margin of profit. The market may fall before he can sell. He knows that, and he proceeds to protect himself as far as he can. He makes what he calls a "hedge"; that is, he enters into a contract to *sell* an equivalent quantity a few months later. The merchant has now two strings to his bow. If the market rises, he will be able to sell his purchase at a good rate of profit; but the cotton for delivery later against his hedge he may have to buy at a loss. On the other hand, if the market falls, he will lose on selling his purchase; but he will have the opportunity of procuring at an advantageous price what he needs for the customer with whom he made the hedge. The buyer of the hedge, however, may himself have entered into that contract merely for protective purposes, and may not want delivery when the time for delivery comes; but if he does, spot cotton can always be bought at the current market figures. Settlement of futures, therefore, is commonly effected, not by delivery of the cotton contracted for, but simply by the loser on a transaction paying to the other party the difference between the price ruling at the delivery date and the price they named when the contract was made.

6. **Wheat.** North-American wheat is sold by description in types or standards guaranteed by Canadian or United States Government Certificates, and quotations are given by the cental or 100 lbs. For example—

No. 2 Northern Manitoba ..	11s. 10d.
No. 3 do.	11s. 3d.
No. 4 Manitoba	10s. 8d.

Other descriptions are American Red Winter, Hard Winter, Northern Spring Duluth Certificate. Dealing by means of such descriptions is termed selling "by type." Markets exist in London, Liverpool, Manchester, and elsewhere,

with spot and future dealings. In London, the "Baltic" Exchange in St. Mary Axe, is the most important market for wheat and kindred produce. In Liverpool, the "Atlantic" is a similar exchange. The United States, Russia, Canada, Argentina, and Australia, send us large supplies.

Operators on Corn, Cotton, Wool, and similar Exchanges are members of the associations governing their respective markets. Of these there are, for example, the London Corn Trade Association, the Colonial Wool Merchants' Association, the Associated London Selling Wool Brokers, the Liverpool Cotton Association, the Manchester Cotton Association, the Liverpool Corn Trade Association, and so on. Every member is subject to the rules of his association, and disputes are submitted for settlement to the committee in authority. Contracts must be made in accordance with the rules of the association concerned, and the bargains made orally on the exchange are reduced to writing afterwards, bought and sold contract notes being sent by the brokers to the purchasers and the sellers respectively. In Part II, will be found chapters dealing with the provisions of the Sale of Goods Act, and the law of contract and agency which bear on these operations and on transactions of purchase and sale generally.

7. Customs Duties. Customs duties are levied as a means of raising revenue. In our colonies and in foreign countries, they are, as a rule, imposed for purposes of protection ; that is, to prevent or hinder goods from other lands competing with the native products. In this country duties recently placed on lace materials, on motor-cars, and on paper are of this protective nature. The other imports on which we collect customs are chiefly—

Spirits, wines, beer	Sugar, glucose, saccharine, chocolate, dried fruit, preserves
Tobacco	
Tea, coffee, cocoa	Petrol, silk materials

Duties payable on commodities in this list, if produced at home, come under the name of *Excise*, and, pursuant to the policy hitherto practised by us, the customs duty and the excise

duty on any given class of article, are made the same in amount, the one to countervail the other.

Besides being responsible for the collection of these import duties, the customs authorities are concerned with the collection of statistics of the exports and the imports of the country. Exporter or importer or his agent has, therefore, to enter or declare at the appropriate customs office every consignment of goods that goes out of, or comes into, our ports. But, because our customs duties are payable on imports only, it is with these that the customs officers are more particularly occupied. The master of a ship just arrived in port must, before beginning to unload, hand in at the customs house a report containing, amongst other information, a copy of the ship's manifest, which is a list of all the cargo on board summarized from the bills of lading. Unloading will then be carried out under the eyes of an outside customs officer, dutiable articles amongst the ship's stores being first put under lock or seal. Goods landed that are not dutiable may be taken away at once, subject, of course, to the freight being paid to the shipping company, and the dock dues to the port authority, both of whom have a lien on the goods for the amount of their charges. Articles that bear duty will not be released until the duty is paid, and if the importer is not prepared to pay at once, they are, as explained in regard to tea, removed to bonded warehouses to be held there under the control of the customs until the duty is paid and delivery taken.

Bonded warehouses are so called because the proprietors of these buildings have given bonds to the Government, making themselves liable to penalties if the premises are not conducted in accordance with the customs regulations. Goods lying in such a warehouse are said to be " in bond." Carmen and lightermen engaged in moving dutiable goods from and to the ships and warehouses are also required to give bonds on behalf of themselves and their servants for the faithful performance of their duties. The bonded warehouse is of benefit to the importer in that it allows him to let the

goods lie over and to claim them only as and when he finds himself able to pay the duty required in respect of them. Entries of imports must be made on the forms prescribed. There are distinct forms for goods subject to duty and for those that are duty free; also special forms must be used for transhipment and for re-export of goods that would be subject to duty if imported for inland consumption.

This country has entered into commercial treaties with a number of other countries. By these treaties it is agreed that each of the other countries' goods imported by us, and our goods imported by them, shall not be subject to more than the lowest rate of duty in force for the same class of goods from any third country. The clause in which this is embodied is known as " the most favoured nation clause." Our colonies take goods from the mother country at preferential customs rates. To encourage native industries, some governments pay bounties or subsidies with the object of helping these industries, in their early stages of growth, to withstand and survive foreign competition.

8. Supplementary Notes.

(1) *Tare and Draft.* Tare is the weight of the wrapper and hoops, of the box or case, or of the cart or wagon, in which goods are packed or loaded at the time of their weights being taken. Gross weight is the weight of the goods and package together; net weight that of the goods alone. Freight is charged on the gross weight; but customs duty is payable on the net weight. Draft is an allowance in reduction of the net weight. It is made by the seller to the buyer of goods to cover possible shrinkage in weight after unloading from the ship and before delivery from the warehouse.

(2) *Through Bills of Lading* are used by American railroads for raw cotton. They cover both the journey by rail to the port of shipment in America and the sea passage across to Liverpool or Manchester. The Canadian Pacific Railway, with its own metals joining the Atlantic and Pacific coasts, and its own steamships plying into Liverpool, issues through bills of lading from and to all parts of the Dominion. Through

bills of lading may be used also for goods to be transhipped from one vessel to another in some intermediate port.

(3) *A Delivery Order* is sometimes issued by the steamship office when the bill of lading is surrendered. It instructs the dock authority to release the goods named in the order. When goods represented by a Dock or Warehouse Warrant are disposed of in lots, delivery orders addressed to the warehouse keeper are issued by the holder of the Warehouse Warrant to the buyers of the separate lots. A Dock Warrant or a Warehouse Warrant is transferable like a bill of lading; a delivery order is not.

(4) *Drawback.* When goods are exported on which customs or excise duty has been paid, the exporter may claim the duty back. The form on which he makes his claim is termed a *debenture*; and the return of the money, a *drawback*.

(5) *Goods on Consignment.* Goods are said to be sent "on consignment" when the owner of the goods ships them to an agent abroad to be sold by the agent on the owner's behalf. The goods are usually accompanied by a *pro forma* invoice; but they remain the property of the sender until they are sold. On effecting a sale, the agent would send his principal an *Account Sales* like the specimen shown on page 187. When the agent sells the consignment on credit and takes upon himself the risks of loss through bad debts, the higher rate of commission allowed him by his principal in consequence is called *del credere* commission. Goods may be shipped on consignment when, being unable to find a present buyer, the owner thinks there will be a better chance of selling them profitably abroad than there would be if he held them indefinitely for the home market.

TERMS AND ABBREVIATIONS

NOT EXPLAINED IN THE TEXT.

A1, entered as 1st class in Lloyd's register of ships.
A/c current, a statement of account in the debit and credit form of a ledger account, and frequently including calculations of interest on the changing balance.
Ad valorem, according to value.
A/S, account sales.
B/E, bill of exchange.
B/L, bill of lading.
Bill of Entry, form of declaration made to Customs House in respect of imported goods.
B.P.B., bank post bill.
Charter Party, document by virtue of which a ship is chartered or hired.
cm., centimetre, 100th of a metre.
Cum div., or **c.d.,** together with the dividend accruing or accrued, but not paid. *Ex div.*, or *x.d.*, means without the dividend in similar circumstances.
D/A, documents to be surrendered against acceptance of the draft.
D/P, documents to be surrendered against payment.
Demurrage, a charge made by the owner to the charterer of a ship for delay in loading or in discharging beyond a stipulated time; a charge made by railway companies for detention of railway trucks.
d/d, d/s, days' date, days' sight.
D/O, delivery order.
D/W, dock warrant.
Ex div., or **x.d.,** see "cum div."
F.a.q., fair average quality.
F.C. & S., free of capture and seizure (marine insurance.)
Kilog, kg., kilo., kilogramme or 1,000 grammes.
Lakh (or **lac**) **of rupees,** means 100,000 rupees. Twenty lakhs would be written Rs. 20,00,000.
Lay days, the time allowed by a charter party for loading or unloading cargo.
L/C, letter of credit.
m/d, months' date.
P/N, promissory note.
Poste restante, the facility whereby letters may be held till called for at the post office to which they are addressed.
Power of Attorney, formal legal document giving one person specific power to act for another.
P.P.I., policy proof of interest (marine insurance).
Rummaging, the searching of a ship by customs officers for secreted goods subject to customs duty.
Sola bill, a bill of exchange drawn in single copy only.
Tale quale, grain trade term, signifying that produce sold "to arrive" corresponds to sample; but that the risk of subsequent damage is the buyer's.
T.T., telegraphic transfer.
Ullage, loss in casks of wine and other liquids due to leakage, etc.
W.W., warehouse warrant.
Y.A.R., York Antwerp Rules (marine insurance)
#342/6—Nos. 342 to 346.

TEST QUESTIONS

In order to acquaint themselves with the kind of work required and the ground to be covered for any examination they intend to take, candidates are advised to procure copies of two previous sets of questions from the office of the examining body.

I—THE COMMERCIAL LETTER.

1. Write the following letters in correct business form—

(a) *To the* REX SULPHATE CO., LTD., 24 GRACECHURCH STREET, LONDON, E.C.3, *from* JAMES BROWN & SONS, MANCHESTER, *24th Sep*—

We acknowledge your letter of yesterday and thank you for offering us the sole agency in this city for your goods. At the same time we regret to say that the commission you name is too small to induce us to take the agency up. If you felt disposed to increase the rate to 10 per cent, we should be pleased to give the proposal further consideration.

Your goods have, as you state, no great sale in this district at present, but we think that, with the means at our disposal, we could increase the demand for them very considerably.

Awaiting the favour of your reply, We are, etc.

(b) An imaginary letter to which the foregoing would be a suitable reply.

2. Write letters of two or three paragraphs in answer to the following advertisements—

(a) Junior clerk, male or female, wanted in a merchant's office. Must be good writer and quick at figures. Preference will be given to applicants possessing the Stage II Certificate in Commercial Correspondence of the Royal Society of Arts. Salary to begin, 22s. Apply, giving full particulars of experience and qualifications, to MANDSLAY & CO., LTD., 18 ROOD LANE, LONDON, E.C.2.

(b) Representative wanted in a developing and remunerative business. A man that knows how to approach prospective customers; how to get their interest; and how to secure orders instead of promises. Apply, with full particulars, to X.Y.Z., Box 390, *Daily Telegraph.*

3. Write as you would in business—

(a) An inquiry, to the employers he is leaving, about the character and abilities of a book-keeper you have just engaged.

(b) A favourable reply to the inquiry; and

(c) An unfavourable reply.

4. Show the direction and the opening salutation you would use in writing a letter to each of the following—

(a) JOHN MARSHALL, a shopkeeper, of TUTBURY.
(b) J. VIPOND EDMUNDS, a barrister, LONDON, W.
(c) BROWN & MCCREADY, wholesale merchants, LIVERPOOL
(d) SIR EDWIN PRIESTLY & SONS, manufacturers, BRADFORD.
(e) KENNEDY, MAY & BARCLAY, LTD., NOTTINGHAM.
(f) THE GREENHOW CHEMICAL CO, LTD., MANCHESTER.
(g) THE MANAGER, LLOYDS BANK, LTD., CHELTENHAM.
(h) HUBERT HUDDLESTONE, M.P., President, The Board of Trade, WHITEHALL, LONDON, S.W.1.

5. Show what form of signature you would use in writing a letter—

(a) As a clerk under instructions for KELLAWAY & Co.
(b) As a person acting on his own responsibility for the same firm.
(c) As the Secretary of COOKS & CLARKSONS, LTD.

6. Write circumstantially as if you were actually in the midst of business—

(a) A letter protesting against delay in delivery of certain goods on order, specifying the goods, explaining the effect of the delay on the writer's business, and forecasting the course it is proposed to pursue if the delay is continued.

(b) A reply representing the delay as quite exceptional and as having been unavoidable, making definite promises about early deliveries, and appealing to the customer's experience of the absence of cause for similar complaint regarding past orders.

7. AVERY & JACKSON, of 170 BOTHWELL ST., GLASGOW, are wholesale dealers in ironware. Mr. EDWARD JACKSON has died, and the senior clerk, Mr. JONATHAN TUCKER, is to be made a partner in the firm. The style of the firm will remain as before. Write a circular giving this information to customers, and endeavour to make the circular at the same time a means of increasing business.

8. Write out a complaint to the effect that five barrels of machine oil you have received to-day are not according to sample, and are of an inferior quality. Supply names and addresses yourself. Say on what conditions you would be willing to keep the oil.

9. In what points of form does a "memorandum" differ from an ordinary commercial letter? Write a memorandum asking for an illustrated price list of lawn mowers to be sent you; also asking what discount is allowed and whether the goods would be sent carriage paid or not.

10. Explain what different kinds of signature are found in commercial letters, and give an example of each kind.

11. In a letter written on the 4th Dec., 1924, how should reference be made to each of the following dates?—

(1) 1st Dec., 1924	(4) 5th Dec., 1924
(2) 29th Nov. 1924	(5) 6th Jan., 1925
(3) 31st Aug., 1924	(6) 7th April, 1925

12. SAMPSON & CO., of BRADFORD, are asked by CANNING & WILSON, of MANCHESTER, if they can supply 5,000 yards of cloth like the pattern enclosed, price to be about 3s. 8d. a yard, and delivery to be made within a month of the placing of the order. Draft SAMPSON & CO.'s reply from the following notes—

Mills too full, and staff too depleted, to permit of the order being put in work for three weeks at least, and two months more required to complete. Price out of the question; costs increased 60%; 5s. 10d. a yard the minimum. Could supply similar but less satisfactory fabric at 5s. 2d. the yard, as sample being sent by same post, and possibly save three to four weeks in time required for manufacture; but sample is sulphide and not aniline dyed. Regret exceedingly to inconvenience old customers; but best will in the world cannot overcome ever-increasing difficulties due to exigencies of war.

II—MINOR MATTERS.

1. Why are copies kept of outward business letters? Explain by what processes the copies may be made.

2. Describe briefly the various ways of copying outward correspondence for office reference purposes. Say which way you prefer, and why.

3. Explain how you would deal in business with letters received in order to keep a record of their receipt and to trace, when necessary, what has become of any of them.

4. Explain how, in an office, you would keep record of the despatch of outgoing correspondence.

5 Describe how multiple copies of a typescript document may be obtained by stencil process.

6. Some 500 copies are required of a business circular. Explain by what different means they may be produced in the office and without having recourse to the printing press.

7. What is the meaning and the purpose of the following when it appears at the head of a commercial letter?

When replying please quote B/169

8. Condense the following to telegraphic form—

(a) *We have received and tested the sample of zinc ashes referred to in your letter of the 6th inst., and for the 20 tons we can offer you £6 4s. a ton dry weight, delivered free at our works, subject to the bulk being equal to the sample submitted. Early delivery, and net cash payment after receipt of the material and verification of its weight and quality.*

(b) *We regret to find on opening the ten cases of glass delivered here yesterday that 10 per cent. of the sheets are broken; 50 per cent. show bubbles; and nearly all are badly scratched. Will you please instruct your London agents to inspect and report to you on this delivery; because we shall have to claim allowance for 33⅓ per cent. of the amount of the invoice, the balance representing our estimate of the value of the glass as it stands?*

9. (*a*) THOMAS HOLT & Co., of 128 MARKET ST., MANCHESTER (Telegrams—*Holt, Manchester*), have just received ten bags of granulated sugar ordered from JOSEPH TAVERNER & SONS, of 119 GREAT COBALT ST., LONDON (Telegrams—*Grano, Led., London*). Messrs. HOLT find that five of the bags have been seriously damaged by sea-water. Draft, in as few words as possible, a telegram from Messrs. HOLT explaining the matter, and at the same time ordering another five bags to be despatched at once.

(*b*) Write a letter as from Messrs. TAVERNER acknowledging receipt of the wire from Messrs. HOLT, and stating that five bags of granulated sugar have been sent off, also that Messrs. TAVERNER are investigating the complaint about the damaged bags. Add any expressions you think appropriate to the occasion, and sign the letter in such a way as to show that you have power to act on your own responsibility for Messrs. TAVERNER.

10. Rule a form of Postage Book. Make six entries in it. Show how and when it should be balanced. Say what purposes a Postage Book serves.

11. Write a telegram making an offer for the purchase of certain goods, and a reply telegram refusing but making a counter offer. Should letters also be sent, and if so, why?

12. Name four different kinds of work for which machines are now being used in business offices. What benefits does each kind of machine give as compared with the doing of similar work by hand.

III—FILING.

1. What do we mean in the office by the term "filing"? By what points would you judge whether a given filing device was or was not efficient, and suitable for modern office requirements?

2. Describe any good system of filing with which you are acquainted.

3. Name three distinct principles of arrangement that are brought into use in the filing of business papers. Indicate briefly how each principle is applied.

4. Re-arrange the following list so as to show in what order you would file letters received from the correspondents named. Say what you consider to be, from the point of view of future reference, the best manner of keeping the copies of your answers to these letters.

(1) ROBERT HALL, BRADFORD
(2) JAMES GREEN & SONS, HALIFAX.
(3) RICHARD GREEN, LONDON.
(4) THE GLOBE EXPRESS CO., NOTTINGHAM.
(5) JOHN GREEN & CO., HALIFAX.
(6) ROBERT HALL, BOLTON.
(7) GREGORY & BROWN, HULL (letter dated Jan. 14)
(8) ,, ,, ,, ,, ,, ,, 2
(9) ,, ,, ,, ,, ,, ,, 26
(10) GORDON & GRANT, GLASGOW.
(11) HALL & PICKLES, MANCHESTER.
(12) GOODSON & BROWN, LIVERPOOL.

5. Sketch in broad outline the way in which you would organize the filing arrangements for both inward and outward correspondence in a large merchant's office.

6. Describe the "flat file" by indicating briefly the main features of its construction, explaining at the same time the manner of using it.

7. Describe the "vertical file" by indicating briefly the main features of its construction, explaining at the same time the manner of using it.

8. In what circumstances do you prefer—

(a) The vertical file to the flat file,

(b) The flat file to the vertical file.

Enumerate reasons for your answer in each case.

9. Explain the difference in the manner of using the vertical file when its folders are arranged numerically instead of alphabetically.

10. Say what you know of some filing devices other than the flat file and the vertical file, and express your opinion about them.

IV—Indexes and Card Records.

1. Show what the index of a press-copy letter book would look like if opened at the Letter R, and if the names of four correspondents are entered there and nine letters indexed.

Explain by means of this index what the "cross-reference" is in connection with such a letter book.

2. Arrange the following names as they would appear in a Vowel Index—

(1) Ben Bolt, Belfast	(6) Black & Green, Manchester
(2) Briggs & Sons, Bradford	(7) Brooks & Baxter, Bury
(3) Bell & Brown, Bolton	(8) Chas. Brewer, York
(4) Edward Ball, Burnley	(9) A. Burns & Co., Edinburgh
(5) Biddles Bros., Liverpool	(10) Bryant & May, London

3. Arrange the names below in dictionary or index order—

Abbotsbury	Abbeydore	Abercarn
Aberdeen	Abergele	Abingdon
Ackworth	Ashburton	Alcester
Althorne	Accrington	Altrincham
Arundel	Alnwick	Aylesford
Addingham	Aldershot	Atherstone
Amersham	Amberley	Ardlui

4. Re-arrange the list below to show (a) the order that the names would take in a card index; (b) the form in which each entry would be made—

(1) The Editor, *The Western Morning News*
(2) The Acme Manufacturing Co., Ltd.
(3) Edward Grey, Fitch & Lewis.
(4) Secretary, Esmond's Dry Cleaning Co.
(5) The General Manager, The Great Western Railway.
(6) Arthur Jameson & Sons, Ltd.
(7) Price's Patent Candle Co., Ltd

(8) Mr. J. Comford Cope.
(9) The Hon. John Collier.
(10) Chief Accountant, Bank of England.
(11) Dr. W. Pitt-Payne.
(12) The Manager, The Gas Works, Oldham.

5. Explain what a card index is by describing briefly the different parts of which it consists. Name some purposes for which a card index is suitable.

6. What is the outstanding advantage of the card form of index over the book form? Explain other advantages that a card index may possess.

7. Indicate two purposes other than that of a mere index of names for which you could use card records in a business office. Name the chief considerations that might induce you to adopt the card form of record for one or other of these purposes.

8. What do you understand a "loose-leaf" book to be? In what circumstances would you use such a book in preference to the ordinary form of book, and why would you use it?

V—Business Documents

1. What is an invoice, and what particulars should it contain? What is meant by a "pro forma" invoice, and when would one be used?

2. Rule a form of invoice, putting in whatever you please in the way of heading to make it look like the real thing, and enter the following—

One chest of tea, 100 lbs. net, at 1s. 6d. the lb.; 4 cwt. of loaf sugar at 36s. 4½d. the cwt.; 1 case containing 100 tins of sardines, at 4s. 7½d. the doz.; 3 cases each containing 5 doz. tomatoes, at 5s. 4½d. the doz. Charge 4s. 10d. for carriage.

3. Show the following in the form of an invoice and supply appropriate heading and names—

86½	yds.	Green	Cotton	Bindings	@ 7⅛d
90¼	,,	,,	,,	,,	@ 7⅞d.
38	,,	Blue	,,	,,	@ 8⅛d.
183	,,	,,	,,	,,	@ 8½d.

The buyer is to be charged 3s. 6d. for packing materials. The goods are subject to trade discounts of 10 % and 2½ %, and there is a cash discount of 1¼ %. Deduct these, and on behalf of the sellers, receipt the invoice for the net amount.

4. Rule and write out an invoice for the goods named below, and fill in whatever other particulars you please so as to give to the document the appearance of actuality—

102 as 100 yds. Light Fancy Tweed @ 3s. 9d.
90 as 89 yds. Black Vicuna @ 5s. 6d.
43 as 42 yds. Blue Serge @ 4s. 11d.

Then rule and make out a statement of account for this transaction, deduct 3¾ %, and receipt the statement.

5. Show how you would invoice the following goods—

3 pcs.	Sheeting	52″	No. 40,	1/62, 1/80, 1/97, @ 6¼d.
6 ,,	,,	69″	,,	2/64, 2/66, 2/68, @ 9¼d.
5 ,,	,,	70″	,,	3/70, 2/69½, @ 9¾d.

Show a credit note for an overcharge of ½d. the yard on the middle line of the invoice.

6. What are debit notes and credit notes, and why are they used? SAMUEL PHELPS & Co, Biscuit Manufacturers, of ISLEWORTH, sent and invoiced some tins of biscuits to JAMES GOODENOUGH, Confectioner, 12 NEW ST., BIRMINGHAM. He afterwards discovered that four tins too many had been invoiced at 7s. 5d. the tin. What should Messrs. PHELPS do to put the error right? Suppose GOODENOUGH discovered the mistake before they did, what should he do to rectify it? Show in proper form the document that would pass in each case.

7. Wherein does a statement differ from an invoice, and why are statements sent out by business men? WELLS & WIGGLESTONE, Wholesale Grocers, 55 & 56 FLINT ST., BERMONDSEY, had the following transactions with ROBERT OWEN, 12 HIGH ST., DEPTFORD—

July 1 W. & W. rendered a statement to OWEN for goods supplied during June, amounting to £19 10s. 7d.
2 W. & W. sold goods to OWEN, value £20 17s. 6d.
4 OWEN returned goods to W. & W., value £3 16s. 8d.
8 W. & W. sold OWEN goods value £3 16s. 8d.
9 W. & W. sent credit note for overcharge of 5s. 8d. in their invoice of the 8th.
10 OWEN remitted a cheque for £15.
15 W. & W. sold OWEN goods value £12 9s. 8d.

Make out WELLS & WIGGLESTONE's statement of account in proper form as on 1st Aug.

8. You are a clerk employed by JONES & EVANS, and you call on DAVID LLOYD & Co. to collect an account of £27 14s 10d. due to your firm. The account is subject to a discount of 2½ %. Messrs. LLOYD offer you £25 in payment. They have deducted an amount of £2 2s. which they claim as an allowance; but which your firm disputes. Will you take the £25 or refuse it? Give your reason for your decision in either case. Show the receipt you will give if you decide to take the amount offered.

9. Make out an invoice for the goods described below sold by RUPERT HARRIS & Co., 52 BELMONT ROAD, LIVERPOOL, to JAMES FELL, 14 MARKET ST., OSWALDTWISTLE, on 13th March—

Three casks Saltpetre @ 25s. 6d. the cwt.
No. 1, gross 1 cwt. 1 qr. 8 lb., tare 16 lb.
,, 2, ,, 1 ,, 0 ,, 26 ,, ,, 14 ,,
,, 3, ,, 1 ,, 1 ,, 1 ,, ,, 15 ,,
Casks to be charged 5s. each.
Sent by L.M. & S. goods rail, carriage paid.

10. Rule and write an invoice embodying the following particulars—

Buyers—STEPHENS & TAYLOR, Confectioners, OLDHAM.
Sellers—THE UNION FLOUR MILLS, LTD, Union Mills, MERSEY DOCKS, LIVERPOOL.
Date—15th December.
58 Half-sacks (140 lb.) Golden Grain Flour @ 41s. 6d. the sack
9 „ „ (240 lb.) Wheatmeal @ 36s. 6d. the sack
14 sacks (240 lb.) Rice Flour @ 34s. 6d. the sack
67 sacks @ 11d.; 14 sacks @ 1s. 8d.; carriage, 6s. 3d. the ton.

In the ledger of the UNION FLOUR MILLS, LTD, the account of STEPHENS & TAYLOR appears as follows—

Dr.		STEPHENS & TAYLOR, OLDHAM.	£	s.	d.				£	s.	*Cr.* d.
19..						19..					
Oct.	*5*	To Goods .	39	10	7	*Oct.*	*15*	By Allowance	2	1	8
	31	„ „ .	44	5	6		*31*	„ Cash .	50	0	0
Nov	*15*	„ „ .	57	12	6	*Nov.*	*10*	„ Allowance	3	7	6
	30	„ „ .	87	12	1	*Dec.*	*14*	„ Cash .	35	0	0

Debit the amount of the above invoice of 15th Dec. and make out the statement of account as it would be rendered on 1st Jan. by the UNION MILLS to STEPHENS & TAYLOR. Receipt the account under date 15th Feb.

11. If you were cashier for a business house, what rules would you lay down about the giving of receipts when money was paid to you or your assistants by customers and others; and why would you make these rules?

12. What arrangements would you suggest for the passing of invoices inwards, particularly with the object of ensuring the accuracy of quantities, prices and calculations, and of preventing the passing of two charges for the same goods?

13. How would you keep for future reference: (*a*) invoices inwards; (*b*) copies of invoices outwards; (*c*) receipts for accounts you had paid?

VI—THE COURSE OF A TRADING TRANSACTION.

1. What is a tender? Draft an estimate for the supply of any kind of goods, material, or work with which you are familiar.

2. Write an order for goods from a retailer to a wholesale warehouse and an acknowledgment of the order. Both documents are to be so worded as to eliminate cause for future dispute about the description, quantity, price, date of delivery, and terms of payment.

3. Explain the difference in purpose between a Price List and a Prices Current, and say in what different circumstances each would be used.

4. Sketch the procedure to be followed by a wholesale dealer when he opens an account with a new and unknown customer.

5. A retailer sends an order to a wholesale house. Trace the course of business that commonly follows, indicating four documents almost

certain to pass between the parties, and four more that might pass if occasion arose to use them also.

6. State and discuss some of the usual terms on which goods are purchased by a retailer from a wholesale merchant.

7. Write a letter as from E. FOGWILL & Co., LTD, BUSH LANE, NORTHAMPTON, Boot Manufacturers, to E. THOMAS & SONS, LIME ST., LONDON, E.C., enquiring about the financial position of a prospective retail customer.

8. You receive a letter from JAMES STEPHENSON & CO., BOAR LANE, LEEDS, enquiring if, in your opinion, it would be safe for them to trust HAROLD FRANKS, a customer of yours, to the extent of £50 a month.

(*a*) Draft a letter such as you would receive from JAMES STEPHENSON & CO.

(*b*) On turning up your ledger you find that FRANKS is an old customer, that his account averages £80 a month, and that he has always paid promptly. Draft a letter in reply to STEPHENSON's enquiry.

(*c*) Draft a reply on the supposition that FRANKS is a new customer, and has given you trouble to obtain payment from him, he having more than once dishonoured his cheque for a small amount.

9. Describe the methods you would adopt, as head book-keeper in the counting house of a general merchant, for rendering and keeping check upon accounts sent out. Outline the procedure you would follow to bring in payment of accounts not paid within the recognized term of credit.

10. Write as you would if actually in business—

(*a*) To a customer asking for his remittance of the amount of an overdue account.

(*b*) Pressing for payment of the account at once, your previous letter not having been answered.

(*c*) Threatening legal proceedings, as you are still without an answer from the customer.

(*d*) The customer's reply to your third letter saying why he has not written before, and how he proposes to pay the account.

11. Calculate discount at 4 % on £185 10s. 5d; at $1\frac{1}{4}$ % on £1,120 7s. 7d.; at $7\frac{1}{2}$ % on £213 7s.; also interest at 2 % per annum for two months on £567 12s. 10d.; and at 6 % per annum for three months on £54 10s. 4d.

12. Calculate discount at $3\frac{1}{2}$ % on £85 6s. 9d.; at 5 % on £542 1s. 7d.; at $3\frac{3}{4}$ % on £378 16s. 8d; also interest at 3 % per annum for four months on £210 13s. 7d.; and at $4\frac{1}{2}$ % per annum for ten months on £627 5s. 7d.

13. What is "cash discount"? When and why is it given, and whom does it benefit? How does "banker's discount" differ from "cash discount"?

14. What is "trade discount"? How does it differ from "cash discount"? Mention two kinds of commodities frequently sold subject to "trade discount."

15. Contrast the following—

(a) Gross selling price, and net selling price.
(b) Spot cash and 1 %, 15 days prompt.
(c) C.O.D., and C.W.O.

16. A trader in Manchester owes £30 to a trader in Leicester. In how many different ways could the debtor remit that sum to his creditor? Explain the precautions, if any, he could take in each case, and say which form of remittance you yourself would adopt, and why.

17. Explain fully the differences between a postal order and a money order. What safeguards can the sender take advantage of in remitting by postal order and by money order?

18. Calculate discount at $2\frac{1}{2}$ % on £84 12s. 10d.; at $12\frac{1}{2}$ % on £343 5s. 9d.; two months' interest at 3 % on £1,158 16s. 9d.; the discount at $5\frac{1}{2}$ % on a bill for £83 10s. 5d., due two months hence.

19. On 1st April, a banker agrees to allow a customer an overdraft not to exceed £200 for a period of six months. On 30th June, the pass book is made up, the interest to that date is charged, and the balance against the customer is £187 16s. 6d. No further transaction takes place till 11th September, when the customer pays in £200 in cash. Thereafter the account continues in credit. How much will the banker charge for interest from 30th June, if the rate is 6 %?

20. On 10th October, a customer discounts with his banker a bill for £218 10s. 9d. due on 1st December of the same year. What will the discount come to at the rate of 4 %?

21. The following items are owing by PEARSON & SMITH, of YORKSHIRE ST., ROCHDALE, to BARLOW, DEAKIN & HODGKISS, of PORTLAND ST., MANCHESTER—

May 10—£51 2s. 6d.; *May 16*—£14 10s.; *May 26*—£82 18s. 4d.; and *June 1*—£60 9s. 9d.

The debtors agree to accept their creditors' draft for the full amount owing at four months from the average date of the invoices. Show the bill as it would be drawn by BARLOW, DEAKIN & HODGKISS.

VII—ORGANIZATION AND CONTROL.

1. State as clearly as you can the respective functions of the wholesale and the retail trader.

2. Describe briefly four different methods on which retail trade is organized.

3. Explain the functions performed by a wholesale merchant in the home trade.

4. What are the distinctive features of the multiple-shop business? What are the advantages and the disadvantages of this method of conducting retail trade?

5. What are the advantages of departmental stores: (a) to the general public; (b) to the proprietor as compared with the trader whose capital and energies are confined to a single class of goods.

6. State shortly the differences between multiple shops and departmental stores, and the conditions that are most favourable to the development of each.

7. It is said: (*a*) that the modern tendency is towards retail business on a large scale; (*b*) that expenditure on organization increases rapidly with the expansion of a business. Can you show how both these statements may be true?

8. In what ways is a wholesale warehouse of service to the retail trade? In what circumstances do retailers buy from manufacturers direct?

9. What are the small tradesman's best weapons with which to meet the competition of the big stores?

10. Explain "mail-order" selling, and give any arguments you know of for and against this method of carrying on business.

11. What limits would you place on the possible extension of the activities of the manufacturer as retailer?

12. Describe the organization of any wholesale business with which you are acquainted, particularly how it is organized for the selling of goods and for offering goods for sale.

13. If wholesale trade could be abolished, what would be the effect on: (*a*) manufacturers; (*b*) retail traders?

14. Describe in outline the organization of a works or a factory.

15. What factors should determine the suitability of a site for: (*a*) a works; (*b*) a factory; (*c*) a wholesale warehouse; (*d*) a retail shop?

16. How far may it be true that excessive cost of transport is evidence of over-centralization of production?

17. Explain briefly what are the chief activities of co-operative societies, and how such societies are organized.

18. Many manufacturers have agents in London and other cities. Explain the duties of these agents, and the relationship between them and the manufacturers.

19. What are the principal means made use of for advertising goods in the retail trade?

20. Suppose you were a manufacturer of bicycles or of fountain pens. What methods would you adopt to keep a knowledge of your goods in the public mind?

21. If yours were a "mail-order" business, how would you endeavour to record and test the results of any advertising you might engage in?

VIII—Figures and Finance.

1. What are gross profits? What useful purposes are served by ascertaining the gross profit of a business for each trading period?

2. How are the gross profits of a trader calculated. (*a*) on each single article to be sold; (*b*) on the total sales for a given period?

3. What is the difference between gross profit and net profit? Why is it necessary that a business man ascertain both of these?

4. How does a manufacturer calculate the cost of the goods he produces?

5. In many businesses, as a means of procuring orders, quotations for doing work or for making articles of merchandise are frequently supplied to the persons requiring such work or merchandise. How are estimates of cost arrived at for the purpose of these quotations?

6. How are. (*a*) gross profit; (*b*) expenses, (*c*) net profit; (*d*) turnover, related to each other? In the accounts of a business what method would you adopt for effectively comparing the totals under these heads as between one year and another?

7. A shopkeeper's sales for a year amount to £12,500; his gross profit works out at £2,500, and his net profit at £750. For the year he has paid in wages, £500; in rent and rates, £450. He has spent in advertising, £350; in sundry expenses, £400; and he has lost in bad debts, £50. Show what rate per cent. each of these items bears to his turnover.

8. Suppose you were the accountant of a large business with six distinct selling departments. What statistics would you think you ought to place before the management at the close of each month's trading? Sketch in outline tables of forms showing how you would submit the figures.

9. Name several characteristics that may be considered essentials in statistical returns from the point of view of making the returns as useful as possible.

10. In returns of statistics, what are the advantages and disadvantages of the graduated chart as compared with the table of figures?

11. Name any kind of business with which you are familiar. Specify the different kinds of things in which its capital exists. Distinguish those that represent its fixed capital from the others that make up its floating or its working capital.

12. What do you understand the term "over-trading" to signify? What are the consequences of over-trading and how would you guard against them?

13. Traders commonly hold considerable stocks of goods in anticipation of their customers' demands. What are the advantages and the dangers attendant on this practice? How would you attempt to retain the advantages whilst steering clear of the dangers?

14. How could you test whether your stock of goods held for sale was larger than your turnover justified, and how would you keep departmental buyers from exceeding the limits assigned them in this respect?

15. Give two distinct reasons why the giving of credit has to be carefully watched in business. Explain exactly what handicap a trader labours under in allowing long credit as compared with another trader who gets his debts in quickly.

16. Show how a business man benefits by turning his capital over quickly. Of the various assets in which his capital is sunk, to which two must he give special heed in this connection?

17. A manufacturer has before him a copy of a company's balance sheet. He desires some light on the question of the company's ability to pay in due course if he supplies on credit to the company goods worth £500. To what items on the balance sheet would he particularly direct his attention?

IX—Cheques.

1. What is a cheque? What is the difference in form and in effect between a bearer and an order cheque?

2. Distinguish between: (*a*) a cheque; (*b*) a draft made by one office on another office of the same bank; (*c*) a bill of exchange; (*d*) an order in the following terms: "Pay A B Ten pounds provided the receipt hereunder is duly completed by him."

3. What is a "post-dated" cheque? What is the position: (*a*) of the payee of a post-dated cheque; (*b*) of a banker who has paid such a cheque before the date it bears?

4. Say what you know about: (*a*) undated cheques; (*b*) cheques in which the words and figures differ.

5. Write in correct form a specimen of a cheque drawn to order, supplying names and other particulars yourself. Show the form that blank endorsement of the cheque would take; also the form of a special endorsement. Give to each party to the cheque the name descriptive of the part he takes in the transaction.

6. What is an endorsement of a cheque? What is its nature and purpose? What difference in effect is there between a blank and a special endorsement?

7. What form should endorsement take in each of the following cases?

(*a*) On a cheque payable to JOSEPH BRADLEY, the payee's correct name being JONAS BRADLEY.

(*b*) On a cheque received by SUSAN SMITH, in which she is described by her husband's name as MRS. SAMUEL SMITH.

(*c*) An endorsement by JOHN BENTLEY as secretary of the HIGHBOROUGH PICTUREDROME, LTD.

8. EMMANUEL BALL is junior partner in the firm of WILKINS & BALL, and JONATHAN BROWN is the cashier with power to endorse cheques. Show how Mr. BALL would sign in drawing a cheque to be paid away by the firm, and how Mr. BROWN would endorse a cheque received.

9. GEORGE SMITH & SONS, of CAPE TOWN, have a branch office in London. They keep an account at a bank in London, and their local manager, Mr ROBINSON, has authority to draw cheques on this account for paying amounts owing in this country by his employers. He signs the cheques thus—

per pro. GEO. SMITH & SONS,
WM. R. ROBINSON.

Are persons dealing with these cheques affected in any way by the form of the signature?

10. What is the difference in the effects of the following forms of signature on a cheque or bill?

(*a*) *For the* X Y DAIRY CO., LTD., Z., *Director.*
(*b*) Z, *director of the* X Y DAIRY CO., LTD.

11. What is meant on a cheque by the words "endorsement confirmed," and in what circumstances are the words used?

12. A has sent B an open cheque to bearer for £8 in payment of goods received. C steals the cheque from B, alters the amount to £80, and absconds after cashing it for the higher amount over the counter of

the bank on which it was drawn. What is the banker's position, and what is the position of B ?

13. What are the rights of a holder in due course of a cheque in which a material but not apparent alteration has been made ?

14. LOVELL draws a cheque payable to MORGAN or order; SMART steals it and forges MORGAN'S endorsement; LOVELL'S bank pays it. Can the bank debit LOVELL'S account with the amount ? Give reasons for your answer.

15. (*a*) If a cheque is drawn payable to bearer, can it be altered to an order cheque by endorsement ?

(*b*) The printing on the face of a cheque is altered from order to bearer in one case, and from bearer to order in another. Are the drawer's initials required to the alterations ?

16. What is an "open" cheque, and what is a "crossed" cheque ? Which form do you recommend for general use in business, and why ? Name some documents besides cheques that may be crossed.

17. State the exact effect of crossing a cheque. (*a*) generally; (*b*) specially.

18. What is the reason for crossing a cheque ? Give three different specimen crossings and explain the effect of each.

19. Explain what is meant by "negotiable instrument." Name some examples.

20. It is frequently stated that the addition of the words "not negotiable" to the crossing of a cheque renders the cheque non-transferable. Comment on this statement. What is the value of the words "not negotiable" on commercial documents other than cheques ?

21. A B dropped a £5 Bank of England note in the street. The note was found by C D, who handed it to his tailor, E F, in part payment of a debt. Explain E F's position in having taken from C D a note that did not belong to C D.

22. State, in your own words, what is the effect of adding to the crossing of a cheque: (*a*) the words "not negotiable"; (*b*) the words "a/c payee."

23. The officials of the AZURE GUNPOWDER CO., LTD., are—

Directors: D. EDMUNDS, GEO. HUGHES, FREDERICK GEE.
Secretary: H. B. WOODBURN.

The bankers are the WESTMINSTER BANK, LTD. The company owes £142 10s. 6d. to ROBERT CHAMBERS. Show the form of the company's cheque sent in payment of the account, drawn with due regard to the prevention of fraud, and to the necessity of safeguarding the personal liability of the signatories.

24. Use the following particulars in showing how you would draw a cheque and make it as secure as possible from misappropriation—

Drawers: JAMES BLAND & CO.
Payee: WILLIAM FORD, whose bank is LLOYDS BANK, LTD., READING.
Drawees: MIDLAND BANK, LTD., BRISTOL.
Amount: £273 10s.

X—COLLECTION OF CHEQUES.

1. How would you obtain payment of a cheque in each of the cases named below?

(a) If you had no banking account and received an open cheque drawn on a bank in your own town.

(b) If you had no banking account and received a crossed cheque.

(c) If you had a banking account and received both an open and a crossed cheque.

2. State what you know about the functions and the working of the Bankers' Clearing House.

3. A owes £5 to each of B, C and D, in distant towns. In payment he sends five postal orders of £1 each to B; a money order for £5 to C; and a crossed cheque to D. Explain as clearly as you can how in each case the value would be transferred from the one place to the other; and how in the distant town the actual payment might be obtained.

4. Name some of the advantages of the use of cheques, explaining what economies are effected in making payments by cheque instead of in coin.

5. Enumerate different circumstances in which a banker would refuse to pay cheques drawn upon him, and state how the cheques would be marked by him in each case.

6. Are there any circumstances in which a banker may not refuse payment of his customers' cheques? If so, what are they?

7. Explain in connection with cheques the terms: (a) collecting banker; (b) paying banker; (c) clearing; (d) dishonour; (e) refer to drawer; (f) payment stopped.

8. When the holder of a cheque delays its presentation for payment, what will be the effect—

(a) When the drawer becomes insolvent?

(b) When the drawer's bank becomes insolvent?

9. If the holder of a cheque fails to present it within a reasonable time, how may the delay affect the holder and the drawer respectively?

10. What is a "marked" or "certified" cheque? What is the purpose of the marking, and in what circumstances would it be resorted to?

11. Explain the meanings of the following "answers" placed on cheques returned unpaid, and the reasons why payment has not been made: (a) cheque mutilated; (b) out of date; (c) crossed two banks; (d) effects not cleared; (e) second endorsement required.

12. Explain the position occupied by the Bank of England in the Clearing House system.

13. How, and by whom, may the payment of a cheque be stopped?

XI—BILLS OF EXCHANGE.

1. You are required to draw a bill of exchange from the particulars below—

Date: 15th March, 19...

Drawers: BROOKS & BRASSEY, BIRMINGHAM.

Drawees: NATHANIEL ARROWSMITH & CO., LONDON.
Payees: BROOKS & BRASSEY.
Terms: 30 d/d. *Amount:* £740.

The bill is accepted by the drawees, payable at Barclays Bank, Lombard Street. Show the acceptance, the stamp duty, and the due date.

2. On the 1st January, JONES & SON, of LONDON, draw upon R. PATON & CO., LTD., of NORWICH, at three months for £102 3s. 6d. The bill was duly accepted by the drawees, the acceptance being signed by a director and the secretary of the company. On the return of the acceptance to the drawers, their general manager, R. McLAREN, who had authority to do so, endorsed it to THOS. ROBINSON & SONS. Show the forms of the draft, the acceptance, and the endorsement.

3. Goods have been delivered by DALTON, POTTER & CO., of BLACKBURN, to JAMES LEWIS, of LIVERPOOL, as follows—

Feb.	*2*	Goods	£58	10	0
	12	,,	72	10	0
	18	,,	143	15	0
	26	,,	37	6	0

You are required to draw a bill for the above payable at one month from the average date of the transactions.

4. Name four different kinds of acceptance. Show specimens.

5. (*a*) When is it necessary that a bill of exchange be accepted?
(*b*) Is the drawee of a bill of exchange bound to accept it?
(*c*) Must the holder of a bill of exchange refuse a qualified acceptance?
(*d*) If he takes a qualified acceptance, what may be the consequences?

6. What different parties may there be to a bill of exchange? Explain what benefits are derived from the use of bills of exchange in modern commerce.

7. Explain exactly what you understand by discounting a bill of exchange. The holder of a bill for £438 10s. due in three months from now discounts it at 6 % per annum. How much does he receive for the bill?

8. ARTHUR BURY & SONS, of MANCHESTER, have sold goods to CLUNY & DRYDEN, of CAPE TOWN, to the value of £535 10s. You are requested to draw in duplicate on the 2nd March a bill at thirty days' sight for the amount, making it payable to the UNITED BANK OF SOUTH AFRICA, or order. Show the amount of the stamp duty payable here on the draft.

9. THE MANCHESTER ENGINEERING CO. ships goods value £800 to the BOMBAY SPINNING CO. The NATIONAL BANK OF INDIA in London agrees to advance to the MANCHESTER ENGINEERING CO., 80 % of the invoice value of the goods on security of a draft, with documents attached, these to be surrendered to the BOMBAY SPINNING CO. on their accepting the draft. Explain fully the procedure to be followed by each of the parties concerned.

10. What is a "documentary bill"? Briefly describe the documents you would expect to find accompanying such a bill. What are the special uses of such bills?

11. Short of demanding cash with order, what is the chief way by which an exporter of goods can ensure that he shall receive the price of them from his customer over-sea ? Explain in detail how the exporter should proceed.

12. Name the various services that banks render in connection with bills of exchange.

13. In what circumstances is it advisable to mention the rate of exchange in a foreign bill ? Why and when is an interest clause frequently included in a foreign bill ?

14. A bank advances money upon goods shipped on consignment abroad. How will the bank secure this advance in the ordinary way of business, and how will it collect the value of the goods ?

XII—More about Bills.

1. What is meant by the "tenor" of a bill of exchange ? If an inland bill is dated 1st March, and drawn at 60 d/d, when will it fall due for payment ? If the bill were drawn at 3 d/d, when would it fall due ? If it were drawn at 60 d/s and accepted on 15th March, when would it fall due in that case ?

2. What is the position of the holder of a bill of exchange that falls due on a Sunday or a Bank Holiday ?

3. What are "days of grace" ? When are they allowed, and how are non-business days dealt with in this connection ?

4. Name some of the differences between inland and foreign bills. Why are foreign bills commonly drawn at so many days after sight, instead of after date ?

5. Define the term "bill of exchange," and state whether the following come under the definition or not—

(*a*) Pay A or order £50 on the death of X.

(*b*) Pay A or order £50 ten days after the arrival in London of the good ship "Swallow."

(*c*) Two months after date, pay A or order Fifty loads of hay.

6. Monsieur A. Bouteille, of Marseilles, owes to the Huncoat Spinning Co., of Manchester, £282 10s. You are required to draw up in proper commercial form, a bill of exchange, dated 1st March, at 30 d/s, in settlement. The amount must be expressed in French currency; the rate of exchange to be taken as 25·26 francs to the £1.

7. What is the amount in English currency of each of the following—

(*a*) 1,640 francs at 25·25 to the £1 ?

(*b*) 1,740 marks at 20·51 to the £1 ?

(*c*) 2,500 rupees at 1/4½ the rupee ?

8. Explain what you know of the rights and the liabilities of (*a*) the drawer; (*b*) the acceptor; (*c*) the endorser; (*d*) the holder of a bill of exchange.

9. A bill, negotiated to you for value through several holders, is dishonoured on presentation by you for payment. What exactly will you do ?

10. Explain the terms: "holder in due course"; "transferor by delivery"; "endorser *sans recours*"; "payment *supra* protest."

11. Give an example of a restrictive endorsement, and explain the position of the endorsee under the endorsement.

12. What is an "accommodation bill"? For what purpose would such a bill be issued, and what liability does a man incur by accepting such a bill?

13. What do you understand by "protesting" a bill of exchange? When is such a course necessary? Describe the procedure.

14. In what ways may a bill of exchange be dishonoured? State the rules for noting and protest of: (*a*) an inland bill; (*b*) a foreign bill.

15. Explain the meanings of the following terms used in connection with bills of exchange—

(*a*) Drawing; (*b*) Accepting; (*c*) Retiring; (*d*) Backing, (*e*) Renewing.

16. Is it the general practice in this country for business men to negotiate cheques? To what extent is it the practice to negotiate bills of exchange given by debtors to their creditors in the ordinary course of trade? A has accepted a bill for £100 drawn upon him by B A fortnight before payment is due, it becomes clear to A that he will not be able to meet the bill. Explain in detail the course you would advise A to take.

17. Bertram Whitehead borrows £30 from Graham Woodward. Show: (*a*) an I O U; and (*b*) a promissory note for the amount. Say what stamps they require.

18. Give a specimen of a joint and several note. Explain the object of taking a note in such form, and say how it differs from a joint note.

19. What stamps are required on—

(*a*) A bill for £275 at three months after date.
(*b*) A bill for £175 at three days after sight.
(*c*) A promissory note for £75 payable on demand.

20. State the rules governing the stamp duty on promissory notes. A gave B a promissory note for £210, payable on demand with interest at 7 % per annum from the date of the note to the date of payment. Draw the note and show the stamp duty.

XIII—Export Trade.

1. Draw up in proper style a shipping invoice for the following—

Sold by Merrilees & Holt, Manchester, to the Bonanza Co., Yokohama, Japan, five cases linen goods marked B C 1/5 Yokohama, shipped by SS. "Flintshire" from Birkenhead, invoice date, 21st December—

No. 1 —30 pcs. 40" Loom Damask Tabling,
20/50, 10/43 = 1,430 yds. @ 5½d.
" 2/3—60 pcs. 46" Loom Damask Tabling,
40/55, 20/59 = 3,380 yds. @ 5¾d.
" 4/5—40 pcs. 50" Loom Damask Tabling,
37/54, 2/50, 1/37 = 2,135 yds. @ 6¼d.

Deduct 2 % from the amount of the goods

Charges: Packing, five cases @ 10s. 6d.; freight, 30 cub. ft. @ 40s. per ton measurement, and 10 % primage; marine insurance, £200 @ 6s. 8d. % F.P.A., and stamp.

2. Make out in correct form, an export invoice for the following goods and charges—

Shipped by JAMES WOODLEIGH & Co., of LIVERPOOL, to GEORGE GOOCH, of DURBAN, by SS "Richmond" from Liverpool, 10th March, eighteen iron-hooped crates containing—

180 boxes, each 24 lb. Stearine candles @ 5s 3d the dozen lb.

Each crate measures 4′ 9″ × 1′ 6″ × 2′ 2″. Freight is charged @ 22s. 6d. the ton of 40 cub. ft. plus primage, 10 %. Insurance A/R on £110 @ 7s. 6d. %, and stamp. Bills of lading and stamps, 3s. 6d. Commission, 2½ %.

3. From the particulars below, write out a form of shipping invoice—

Date: 23rd March.

Consignors: APPLETON & BURY, MANCHESTER.

Consignees: H. METHA & Co., BOMBAY.

Five cases, each measuring 3′ 6″ × 2′ 9″ × 3′ 0″, marked H M Bombay, shipped per SS "City of Karachi," Birkenhead to Bombay.

Contents: Each case, 75 pcs. Shirtings, qual. B, @ 10s. the piece.

Charges: Five cases @ 10s. each; freight, 25s. per 40 cub. ft., and 10 % primage; shipping charges, 5s.; postages and bill stamps, 3s. 6d ; B/L, 2s. 6d.; Insurance, £250 @ 10s and stamp; commission, £5.

Order: B257875.

4. What information can you give about the packing of goods for export ?

5. What amount would be charged for freight on—

20 bales, each measuring 3′ 2″ × 2′ 4″ × 3′ 6″
20 cases „ „ 3′ 4″ × 2′ 2″ × 1′ 10″

at 27s. 6d. per steamer ton, with 10 % primage ?

6. You are an exporter of stationery, and have received an order from Melbourne for your stock lines of goods to the value of £100. Describe the steps you would take in getting the goods shipped to your customer in Melbourne.

7. Explain fully what you know about the nature and uses of a bill of lading.

8 What is a mate's receipt ? Distinguish between it and a bill of lading. By whom and to whom is a mate's receipt issued, and what is the difference between a "foul" and a "clean" receipt ?

9. What is the difference in marine insurance between general and particular average ? What are the meanings of F.P.A. and W.P.A. ? What is a war risks policy ?

10. A city merchant receives from abroad an order for goods, which is executed in due course. Explain what various documents will have to be prepared in connection with this order from the time of its receipt in London down to the date when the goods are despatched.

XIV.—EXPORT TRADE—*continued.*

1. Describe briefly some different methods by which orders may be procured and executed in foreign trade.

2. Write out in correct form for a manufacturer an export invoice for the following—

Date: 22nd March.
Sellers: A. ANSELL & CO., LTD., STOKE-ON-TRENT.
Buyers: LEGG & EMBLEY, GRAINGER ST., SYDNEY.
Shipped per SS. "Empire" from London.
Six cases, each containing 25 sets XL Dinner Ware @ 30s. the set.
Charges: Freight, £3 6s.; insurance, 12s. 8d.; dock dues, £1 15s.; bills of lading, 2s.; packing, £10 10s.
Marks: L & E, Sydney, 1 to 6.

3. A merchant may quote for goods F.A.S. What does this mean? Mention five other kinds of prices commonly quoted for goods, give their commercial abbreviations, and explain exactly what each means.

4. In answer to a question, an examination candidate wrote—

"It is more advantageous to buy C.I.F., than to buy F.O.B., because in the first case the shipper pays the insurance and freight, whereas in the second case he only puts the goods on the steamer free. Therefore I should always purchase C.I.F." Do you agree with these remarks? If you do, explain why merchants ever buy F.O.B. If you do not agree, say exactly why you differ from the writer.

5. If you are prepared to sell 5,000 yards White Sheeting *ex* warehouse for 10½d. a yard, what price the yard would you quote a South African buyer C.I.F., Cape Town, if packing the goods in eight cases cost 13s. 9d. the case; carriage to docks, 22s. 9d.; dock charges, 18s. 3d.; B/L, 2s. 6d.; freight, £27 10s.; and if insurance could be effected at 8s. 6d. per cent.?

6. Make out a C.I.F. invoice for the following, also invoices for the same goods C. & F., and F.O.B. Omit the headings.

15 doz. White Cotton Turkish Towels @ 6s. 6d. the doz.
36 „ Cairo „ „ „ @ 25s. 3d. „
28 „ Grey Sultan Cotton „ @ 17s. 9d. „
2 pieces Grey Cotton Rollering = 43 yds. @ 7¼d. the yard.
Packed in five cases, total weight, 20 cwt. 1 qr.
Carriage to docks @ 35s. the ton; dock charges, 14s. 9d.; B/L, 2s. 6d.; Freight, £25 18s.; insurance @ 15s. % on the value declared.

7. From the particulars below, make out a franco invoice in metres and francs—

Shippers: B. BURTON & CO., MANCHESTER.
Buyers: J. GEORGES & CIE, AMIENS.
Shipped per SS. "Swansail" from Hull.
Five cases, each 30 pieces black Jeannettes, 9,750 yards @ 7d. the yard.
Note—1 yard = M 0·9144; £1 = Fcs. 25·22.

8. What is a consular invoice? Mention some of the countries for which consular invoices are required.

9. In what does a consular invoice differ from an ordinary export invoice? What purposes does a consular invoice serve?

10. What is a certificate of origin, and for what purpose is such a certificate required?

11. Explain the position of an agent in the export trade as distinguished from that of a merchant.

12. State shortly the main differences between home and foreign wholesale trade.

XV—Foreign Telegrams.

1. Give a summary of the international regulations in force for foreign telegrams.

2. What are the different ways in which ordinary-rate foreign telegrams may be written, and what are the rules to be observed in regard to each way?

3. State briefly what you know about the facilities for sending cablegrams at reduced rates, and about the regulations regarding such telegrams.

4. Name three telegraphic codes in general commercial use. What advantages are secured by the use of codes, and on what principles are they constructed?

5. What has been the cause of the development of telegraphic codes? What steps have the telegraph companies taken to counteract the growing use of these codes, and to increase the volume of cable traffic?

6. Describe a telegraphic code and its uses. Write out a brief message in an actual or an imaginary code, and decode the message.

7. How can you use an ordinary public telegraphic code and yet be able to transmit your telegram by secret cipher?

8. Give some brief illustration of the principles on which phrases or sentences may be combined, so that several phrases or sentences may be condensed into a single code word.

XVI—Imports.

1. Name the different parties from producer to consumer through whose hands, or under whose control, goods may pass in either the export or the import trade.

2. You receive an advice from the Delaware Trading Co. that they have forwarded to you per SS. "Andalusia," a consignment of American goods. In due course, you receive the bills of lading. What steps would you take to obtain possession of the merchandise, it being assumed that you do not employ an agent?

3. A. Symons & Co., of London, import from Rangoon, per SS. "Volturno," 1,000 bags of rice. Explain the procedure they must follow to take delivery of the rice *ex* steamer at the Royal Albert Docks. What procedure should they follow if they imported 500 half-case, of currants from Patras, and desired to warehouse them at the docks?

4. Explain the general procedure by which produce, as distinguished from manufactured goods, is usually disposed of in an import markets

and mention the names and describe the character of the documents employed in this connection.

5. Rule up and write out a form of invoice embodying the following particulars—

Buyer: James Atkinson & Co., Birmingham.
Sellers: Silas Barker & Co., Eastcheap, London, E.C.3.

H G S Nine chests Assam Fannings, *ex* " City of Lucknow "—

	cwt.	qrs.	lbs.	tare
3319	1	0	15	19 lb.
20	1	0	12	18
21	1	0	12	18
22	1	0	15	18
23	1	0	9	16
24	1	0	6	15
25	1	0	12	17
26	1	0	10	16
27	1	0	7	15

Price 9d. per lb. In addition to the tare, there is a draft allowance of 1 lb. the chest. Discount at 1½ % will be allowed for cash in 14 days.

6. I employ a broker to sell for me some dried fruit which, in the course of my business, I have imported from Valencia. After he has sold the fruit my broker sends me an Account Sales. Explain the functions of such a broker, and the exact character of the Account Sales.

7. Make out an Account Sales for 150 barrels of coffee *ex* " Malwa " from Jamaica, and sold by Brenner & Coates, Liverpool, for and on account of Peter Banks & Co., Port Antonio, Jamaica—

Gross weight: 286 cwt. 3 qrs. 11 lb.
Tare and draft: 34 cwt. 2 qrs. 6 lb.
Sold at 63s. 6d. the cwt.
Charges: Entry and dock dues, £2 1s. 6d.; marine insurance, £5 3s.; freight on 286 cwt. 3 qr. 11 lb. @ 45s. the ton of 20 cwt.; cartage and porterage, £3 12s. 6d.; auction expenses, £1 4s.; bank commission and interest on charges, £1 6s.; commission and *del credere* @ 2½ %.

8. Explain what is meant by " duty free goods," and by " goods in bond."

9. What is a " dock warrant " ?

10. From what countries do we import the following goods, and at what port or ports would each usually arrive ?—

(*a*) Raw cotton (*d*) Coffee
(*b*) Wool (*e*) Timber
(*c*) Tea (*f*) Wheat

11. Mention some commodities usually sold by standard, and others usually sold by sample. Can you suggest any reason why some commodities are customarily sold by standard, and others by sample ?

12. A manufacturer has accepted orders for future delivery of his goods at specified prices. How may he protect himself against unfavourable fluctuations in the price of the raw material he will require for making the goods ?

13. What do you understand by the terms " futures " and " hedge " ?

14. What is customs duty and how does it differ from excise duty ? Mention a few articles on which such duties are levied.

15. An importer of foreign goods has to " declare " the consignments he receives. What is meant by " declaring " such goods, and how is it done ? What must an importer do to obtain possession of dutiable goods ?

16. For what purpose are customs duties imposed on goods entering the United Kingdom ? Contrast this purpose with the purpose for which customs duties are levied, in the United States, for example. What precautions are taken by the Government to make sure that all dutiable goods imported shall be brought into account ?

17. What purposes are served by bonded warehouses: (*a*) from the point of view of the Government; (*b*) from the point of view of the merchant ?

18. What is an excise drawback, and what a customs drawback ?

19. What are meant by the terms: " gross," " tare," " net," " draft " ?

20. What do you understand by goods being sent " on consignment " ? How does a consignment differ from a sale, and in what relationship does the consignee stand to the consignor ?

MODERN BUSINESS AND ITS METHODS

CHAPTER XVII

THE SERVICES OF BANKS

1. **A Variety of Services.** Earlier chapters of this manual have already dealt with several of the services that banks render to the business community. The chapters on Cheques, Bills of Exchange, and Foreign Trade described somewhat fully the paying and the collecting of cheques; also the presentation of bills of exchange, inland and foreign, for acceptance and for payment. They treated of the discounting of inland bills, and of the purchase of, or advances against, bills to be collected abroad. These passages should be read again as coming under the subject of the present chapter. In the following list the above and other functions of the banker are summarized—

(i) *Receipt of money for safe custody—*
(a) On current account with the person paying the money in;
(b) On deposit account with the payer-in;
(c) For accounts other than those of the persons paying in.

(ii) *Transfer of money from place to place—*
(a) By paying or collecting cheques, bills of exchange, or similar orders;
(b) By issue of bank drafts or letters of credit;
(c) By transfer in account between banks in different towns;
(d) By issue of bank notes.

(iii) *Supply of credit to customers—*
(a) By granting loans and overdrafts;
(b) By short advances on bills of lading and similar documents;

1—(1737A)

(c) By discounting, bills not yet due, or by advances on bills received for collection abroad;

(d) By accepting drafts on behalf of customers.

(iv) *Miscellaneous services*, such as the safe custody of deeds and valuables of other kinds belonging to the banker's customers, the purchase and sale for customers of stocks and shares, the acting as executor or trustee for private persons' estates or as treasurer of public funds, the making and answering for customers of inquiries between banks about the means and standing of traders.

These numerous activities have been set out as varieties of three main functions, with a fourth and miscellaneous group of services added. It remains for us to consider in some detail those of the duties named to which we have not previously paid particular attention.

2. **The Current Account.** (1) *Its Uses*. The ordinary banking account of the business man is a *current* or running account into which money may be paid, or from which money may be drawn out, at any time. In most instances it is with three primary objects in view that a business man keeps a current account at a bank. His objects are: First, that his business funds may be lodged in a safe place; secondly, that the business man may avail himself of the bank's services for the collection of the cheques he receives in the course of his business; thirdly, that he may enjoy the facility of remitting by cheque the accounts he has to pay. The interest that the banker may allow on the balance of a current account is a minor consideration. If the chief object in placing money in a bank is to earn interest, a *deposit* account, and not a current account, is what should be kept. It may be that in opening a current account a commercial man intends to make use of the banker in some of the other ways set out in the preceding summary; but the objects just named are the usual ones.

Money at the bank is not only safer—it is more convenient there than in the merchant's own office. It is more convenient because he is relieved of the trouble of taking care of it, and because, lying at the bank in the form of a credit to be drawn against at the owner's will, it is much more readily available for remittance than it would be as coin or

notes in an office safe. As everyone knows, the banker does not undertake to keep the identical pieces of money entrusted to him by his customers, and to restore them exactly as he took them, when the owners require him to render account of his stewardship. Nevertheless the customer of a bank is entitled to have back, on demand, the equivalent of the whole or any part of what he leaves at the bank in current account. The banker holds himself ready to repay on presentation of the customer's cheque, and to repay to any person indicated in the cheque. The present-day banking arrangements for the collecting and paying of cheques are so well adapted to the needs of commerce that the banks have no effective competitors in this work of transmitting business payments from place to place. And these facilities attach to a current account as a matter of course, by banking usage, and without any special agreement between the banker and the opener of the account.

(2) *Opening of the Account.* Just as a prudent trader makes inquiry in similar circumstances, so a banker, before opening a new account, is careful to obtain trustworthy information about the character or reputation of the prospective customer. Should the banker not already know the applicant for an account, he will require him to be introduced by someone he does know. Or, he will ask for the names and addresses of two responsible persons from whom he may seek the information he desires. If, without such inquiry, he issued cheque books to all comers, dishonest persons would apply for them; and, after exhausting the funds with which their accounts had been opened, they would palm on to the public worthless cheques with nothing in the bank to meet them when presented. The preliminary inquiries satisfactorily concluded, the banker will allow the account to be opened and operated upon. He will have taken particulars of the full name, address, and occupation of the applicant, and a specimen of his ordinary signature, so that he may refer to it and compare it at any time with the signature on cheques drawn on the customer's account.

A cheque book will be issued on the customer's signing an order for one, the order authorizing the banker to charge to the account the value of the stamps impressed on the cheques. A pass book will also be handed to the customer, and in it will be entered to his credit the amount paid in to open the account. From time to time this pass book should be left at the bank to have the transactions on the account written up in it. The book derives its name from its continual passing to and fro in this way between the banker and the person whose account it contains.

When an account is opened in the name of a *partnership*, a specimen signature of the firm's name as written by each partner will be required, together with the full name and other particulars of each member of the firm. As has been explained in another place, the signature of a firm consists of the name of the firm written by one of the partners; and, in the absence of agreement between them to the contrary, any one of the partners is entitled to draw and sign the firm's cheques. Death or retirement of a partner has the effect of dissolving the firm, and the new partnership consisting of the surviving members of the old firm must make a new start with the bank.

Accounts are sometimes opened in their *joint names* by two or more persons who are not partners. Then, if one of the persons dies, the right to deal with money in the banker's hands falls to the survivor or survivors. Cheques drawn on a joint account should be signed by all the joint-holders, unless one has been given authority to sign for all, and the banker has been authorized to act on such signature.

In opening an account with a *company*, the banker will ask for a copy of the Memorandum and Articles of Association of the company. He will ask to see these in order to acquaint himself with the powers that the company possesses for borrowing money, or—what amounts to the same thing—for overdrawing its bank account; and to acquaint himself with any regulations, with regard to the bank account, that the Articles may contain. A company's activities are limited

by law to the powers taken in its Memorandum of Association, and bankers and other persons dealing with the company are presumed to have knowledge of what these powers are. Any transaction of the company which was *ultra vires* (*i.e.*, outside the company's powers) would be void at law. Therefore, if a banker lent the company money when it had no power to borrow, or when it had already exhausted its powers in that respect, the banker, even though he had acted under agreement with the company's directors, could not call upon the company to refund the money, the reason being that the agreement was invalid. In such a case, the banker would probably have only the directors in their personal capacities to look to for repayment.

The banker may also consider it prudent to see the company's certificate of incorporation, or, where the company is a public one, its certificate permitting the commencement of business, for until a public company is authorized to commence business, its contracts are provisional only. Further, the banker would require a signed copy of the directors' resolution providing for the opening of the bank account and instructing him how cheques, bills, and similar documents are to be signed, endorsed, or accepted, and by whom. As before, specimens of the requisite signatures must be furnished to the bank.

(3) *The Pass Book.* Periodically the pass book should be checked with the Cash Book of the business. Were delay to occur in pointing out a wrong entry in the pass book, the position of the trader might be compromised. The pass book when written up by the bank and handed to the customer amounts to what the lawyers call an "account stated." If a wrong entry against a customer were to remain unnoticed for a time, the fact of his not having taken earlier exception to the entry might, in certain circumstances, be construed as acquiescence on the customer's part. The omission to take exception might, on the late discovery of the error, prejudice his claim for its correction by the bank. On the other hand, the customer is entitled to rely to some extent on the entries

made in his pass book. If, because of wrong entries therein, the customer had drawn a cheque for a larger amount than he actually had at the bank to meet it, and the cheque had been returned to the holder unpaid, the customer would probably be able to recover damages from the banker for injury to his reputation consequent upon the dishonour of the cheque.

When the pass book is checked with the business Cash Book, a statement of reconciliation between the two books should be drawn up in a form like the following—

RECONCILIATION STATEMENT, *31st March*, 192..

			£ s. d.
Pass Book Balance—credit of bank . .			503 10 4
Add unpresented cheques—		£ s. d	
C.B. folio	102, Blake	10 2 6	
,,	103, Carter	41 17 -	
,,	103, Duncan	2 13 4	
			54 12 10
			£558 3 2
Deduct: paid into bank, but not credited in pass book, C.B. folio 103, March 31 .			115 11 8
Cash Book Balance—credit of bank . .			£442 11 6

(4) *Interest and Commission.* In London the banks expect a customer to maintain a satisfactory balance on his current or drawing account and, if he does this, no charge is made for the working of the account. No interest is, however, allowed him on the balance. In the provinces, the custom is to allow interest on a current account when the balance is in the customer's favour, and to charge commission for the payment of the customer's cheques. For an account of fair size, the commission might be $\frac{1}{16}$ per cent. of the turnover (*i.e.*, of the total of the cheques paid); for a smaller account, $\frac{1}{8}$ per cent. might be charged. But for a large account, a round figure (*e.g.*, £100 a year), as the banker's remuneration, would probably be agreed upon when the account was

FORM OF CUSTOMER'S CURRENT ACCOUNT,

WHERE THE BANK ALLOWS INTEREST.

Date.	Transaction.	Debit.			Credit.			Balance.				Days.	Products.	
		£	s.	d.	£	s.	d.		£	s.	d.		Debit.	Credit.
1920.														£
Dec. 31	By Balance .				301	16	2	*Cr.*	301	16	2	10		3,020
1921.														
Jan. 10	By Cash . . .				54	–	–	*Cr.*	355	16	2	2		712
12	To Wilson . . .	42	11	6				*Cr.*	313	4	8	3		939
15	,, Rogers . . .	15	3	–				*Cr.*	298	1	8	5		1,490
20	By Cash . . .				100	–	–	*Cr.*	398	1	8	12		4,776
														10,937
Feb. 1	By Balance . . .							*Cr.*	398	1	8	4		1,592
5	To Adams . . .	62	10	–				*Cr.*	335	11	8	1		336
6	,, Roberts . . .	10	5	6				*Cr.*	325	6	2			

opened. The commission and the interest are entered in the account at the end of each half-year, usually on 30th June and 31st December. The pass book does not show how the interest, if any, is computed; but where interest is to be allowed, or where, in the case of an overdraft, it has to be charged, the ledger account in the bank's books would be ruled in a special way.

In the specimen shown on page 227, the credit balance with which the account opens on 1st January remains unchanged for ten days. This balance is taken at the nearest number of complete pounds, viz., £302. Suppose the rate of interest allowable to be 3 per cent. per annum, then the interest due for these ten days will be found thus—

$$£302 \times 10 \times \cdot 03 \div 365,$$

·03 being the interest on £1 for the year, and $\frac{10}{365}$ths being the time in years. Our product of 3,020 in the specimen account is the first step in this calculation. The other steps are left for completion at the half-year's end. The reader will note that the interest on £302 for ten days is just the same as that on £3,020 for one day; the interest on £356 for two days, the same as that on £712 for one day. He will note also that, if these two amounts of interest were found separately and were then added together, they would come to the same as the interest on £3,732 for one day. Therefore if the 3 per cent. rate remains in force until 1st February, the interest for these thirty-two days on the balances shown in our illustration will be the equivalent of 3 per cent. for one day on the total of the products, that is, on £10,937. To save time, the completion of the calculation at the half-year's end is made by means of a book of interest tables. The proceeds of many cheques paid in for collection would, of course, not be available for earning interest until the second or third day after they were paid in; yet for convenience in book-keeping, banks commonly credit these cheques to the customer's account at once. To simplify the calculations in such circumstances, it might be arranged that,

until the third day, interest should not be allowed on anything paid in. That would alter the total of the products in our example from £10,937 to £10,937 – (£154 × 2) = £10,629.

3. **The Slip System.** Banks work on a system of requiring the customer to fill in and sign a slip to substantiate every operation on his account. The most important of these slips is the cheque that must be drawn before the banker will pay any money out, even to the customer himself. When a payment is made into current account, a paying-in slip is required. This usually has a counterfoil attached, which the bank cashier initials and hands back to the person paying in, as an acknowledgment of the amount. If notes or coin are to be changed, an exchange slip must be filled in; if a new cheque book is needed, an order for it must be signed and delivered by the customer. If it is a bank draft that is wanted, a fifth kind of slip is asked for. If it is a bill of exchange to be collected, a sixth; or an acceptance to be paid, a seventh form must be used. By some banks the cheques that they have paid for customers are returned to the customers in the pockets of their pass books. By other banks these paid cheques are retained as evidence of authority for the making of the payments. Any particular cheque would nevertheless be produced if the drawer requested inspection.

For the pay-in slip a common form in use outside of London is shown on the following page. And the reasons, or some of them, for the particular form it takes may be given here. The totals of notes, gold, other coin, of local cheques, and other cheques, are to be set out on separate lines to permit of their being entered up in separate columns in the books recording the bank's daily receipts. When a cashier pays money out, he has similar particulars endorsed on each cheque he pays, so that these also may be entered in separate columns in the books recording the bank's payments. Should the cashier, at the end of the day, be out in his balance, the separate columns will help him to discover if what he is short or over, or any part of it, is in the notes, or the gold, or the other coin. Further, Bank of England notes are shown by

CREDIT ______________________________ *in A/C with*

The Midland Bank Limited,

79 KING STREET, MANCHESTER, ____________ 192 ____

Manchester Cheques.	London and Country Cheques.		
		Bank of England Notes . .	
		Country Notes	
		Treasury Notes, £1	
		Treasury Notes, 10/– . . .	
		Gold { Sovereigns £ . . .	
		Gold { Half-Sovs. £ . . .	
		Silver, etc.	
		Total Cash . .	
		Manchester Cheques	
		Total . . .	
		London and Country Cheques .	
		Total Credit £	

Paid in by ______________________________

Note.—On the back of the form are further columns to be used for the listing of cheques, when the columns on the front are not sufficient.

themselves because of the practice of many banks of returning the same day to the Bank of England all the notes they receive; and of a record of these being made in a book kept for them alone, the totals of which book should correspond with the notes columns in the other books. For a similar reason, Manchester cheques are, in our specimen pay-in slip, entered separate from London and Country cheques. The Manchester cheques, it will be remembered, are cleared locally, whereas the others are sent up to the head office of the bank in London to be dealt with there.

4. **Deposit Accounts.** A current account we defined as one to which money may be paid in, and from which money may be drawn out, at any time. Where the money lies at the bank on deposit account, it cannot be drawn out without notice. But interest is always allowed on a deposit account; and, even when a banker allows interest on his current accounts, his rate for deposits is a slightly higher one. Seven days is a customary length of notice required; but a stipulation for a longer period of notice may be made when the account is opened, particularly if the amount deposited is a large one and the rate of interest favourable to the depositor. To meet the demands that may be made on him at any time for repayment of his current accounts, the banker must always keep by him sufficient available funds. Experience teaches him how much to reserve for this purpose. He must, however, prepare for emergencies by providing more than he will usually need; and some of the money will therefore very frequently be lying idle with him. The money for his deposit accounts may, on the contrary, be put out at interest up to the last penny; for that money is not repayable to the customer on demand, and bankers, especially in London, have numerous opportunities for the lending of large sums for very short periods. It is because deposit account funds can be more freely employed that the banker is able to pay somewhat more liberally for the use of them than he can for those left on current account. The banker's usual rate for deposits is 2 per cent. below the Bank of England published rate for

discounting bills. And, as this latter rate seldom exceeds 5 per cent. per annum, and has usually been lower, it will be seen that, for profitableness to the owner of the money, bankers' deposit accounts cannot compare with many investments of other kinds that are considered safe. Most persons with funds permanently at liberty place them in other quarters where they regularly yield a better return.

This Receipt is subject to Seven days' notice of withdrawal.

NOT TRANSFERABLE.

No. 308433.

— DEPOSIT RECEIPT —

THE MIDLAND BANK, LIMITED.

_________________ *Branch.*

£_______ _______________, 192..

RECEIVED of ____

the sum of____________ ______________________________

to be placed to _____ Deposit Account with the Bank.

For THE MIDLAND BANK, LTD.

Entd.__________ ________________ *Manager.*

Receipt Clerk ____________ *Cashier.*

This Receipt to be given up on withdrawal of the whole or any part of the Deposit.

For money left on deposit, a banker usually gives a Deposit Receipt in the form above. Before the customer can get his money back on expiry of the notice of withdrawal, he must surrender the Deposit Receipt endorsed with a signed order to repay.

CHAPTER XVIII

THE SERVICES OF BANKS (CONTINUED)

5. **Overdrafts and Loans.** The business of a trader consists of buying goods and then selling them at an increased price. Similarly, the business of a banker may be described as buying the use of money at one rate of interest and selling the use of the same money at a higher rate. Bankers have other sources of profit; but their chief source is this difference between the price they get when lending and that they give when borrowing. Lending, then, is as much part of the business of banking as borrowing is, and much of the lending is done to traders and others who are temporarily short of money for carrying on their businesses.

A banker may grant the borrower either a fixed "loan" or an "overdraft." Moreover, a loan may be granted to a person who has no current account at the lending bank. Then the sum lent, when drawn out by the borrower, is debited in the bank books to a "loan account" bearing his name. If the borrower on a fixed loan has a current account at the bank, the sum lent him will be debited to his loan account and credited to his current account, so that he can draw cheques against the credit thus created in his favour. When the accommodation given takes the form of an overdraft, the customer is allowed simply to draw on his current account cheques for more than the amount he has in the account, these cheques to be honoured by the bank up to a limit fixed when the right to overdraw is granted. In the case of the loan account, interest is charged on the full amount placed at the borrower's disposal. With the overdraft, the charge is made on the debit balance of the current account; and, as this balance varies, it follows that the borrower in the latter case does not pay interest except on the money he actually uses from time to time. Still, the rate of interest

charged for a fixed loan may be a little less than the rate for an overdraft.

The money a banker lends to one class of customers is, nearly all of it, what has been paid into his hands by customers of another class. Money is the banker's stock-in-trade; and it is a stock-in-trade in which brisk business is usually done, for it moves into and out of the bank very freely indeed. The capital of his own that a banker employs in his business is never at any time the equivalent of more than a small fraction of his assets. In all banks the capital is small in comparison with the turnover. That is why a low rate of profit on the large turnover brings a handsome return on the capital employed, and makes banking so profitable a business to engage in.

6. Banker's Securities. A banker may allow a customer, if the banker knows him well, to overdraw his account without any security being given; perhaps merely on the appearance of his position as disclosed in a Balance Sheet submitted by the borrower. But, as a general rule, security must be offered when a loan or overdraft is wanted. The security may take various forms. The principal are as follow—

(1) *Mortgages on Property.* When a trader is in need of more capital to use in his business, he frequently finds it convenient to raise money by mortgage on his business premises, if he owns the premises himself. For an advance of a temporary nature, it may be sufficient for him to deposit with his banker the title deeds of the premises, accompanied by a memorandum of the object of deposit. This gives the banker what is termed an "equitable mortgage" on the property. But, if the money is required for any length of time, the banker will probably want a "legal mortgage" to be executed in his favour and delivered to him along with the title deeds. For safety's sake, the banker will keep his loan well within the estimated value of the property. Mortgages are not, however, the kind of security that is most acceptable to a banker. They tend to lock up his funds

permanently, whilst the nature of banking business, as we have seen, requires that a very large part of the banker's funds be kept in forms that are easily realizable at short notice. What he lends to one customer is money that has been left with him by another customer. It has been left either on current account repayable on demand, or on deposit account withdrawable at short notice. The banker must, therefore, so lay out his funds that a large part will be within easy reach when he is called upon to pay his customers' money back. A bank that places in mortgages too much of the money entrusted to it will one day find itself hard pressed to meet the demands that others of its customers are entitled to make upon it. A forced sale of such securities in such circumstances would cause them to realize very unsatisfactory prices. Besides, when it becomes known that a bank has difficulty in meeting its engagements, the public trust in that bank vanishes immediately, and a run on the bank ensues.

(2) *Marketable Securities.* By these we mean stocks and shares of companies, debenture and other bonds, Government and other public loans, that are dealt in freely on the Stock Exchange, and that can always be disposed of at a fair price when offered there for sale. Because holdings of stocks can, in case of need, be easily disposed of by the banker, they are more in favour with him than securities in less realizable form. The banker may merely require the stock or share certificates to be deposited with him under a covering agreement signed by the borrower, and giving the right to the banker to sell in certain circumstances. Or, where the advance is large or of long duration, he may require the holdings to be transferred into his own name, or into the names of his nominees, in the registers of the companies or public bodies whose stocks or shares they are. With securities of this kind, as with others, the banker will see that a safe margin is left between the amount of the loan and the market value of the investments given to secure it.

(3) *Guarantees.* A would-be borrower from a bank may

get another person to guarantee his account, that is, to become answerable to the bank for repayment of the amount borrowed, should the customer fail to pay the money back himself. Where the guarantor or surety is a person of known financial soundness, this is a form of security quite acceptable to a bank. The bank will, of course, satisfy itself about a surety's stability before accepting such security; and the terms of the undertaking he gives to the bank must be put in writing, and be signed by him. Otherwise the bank would not be able to enforce its claim against the guarantor, should the customer make default. Sometimes a banker may be willing to trust one or more of the directors of a company in preference to the company itself. In such case he might lend to the company on the personal guarantee of one director he knows, or on the joint guarantee of two; for it may often happen that the position of a company, the liability of whose members is limited, is much less satisfactory, from the banker's point of view as lender, than the unlimited personal liability of directors of recognized standing in the business world.

(4) *Life Assurance Policies* are a fourth kind of security frequently taken by bankers as cover for the risk involved in granting loans or overdrafts to individual traders or to private persons. A life policy for £500 or £1,000, taken out with a first-class office and having a number of premiums paid upon it, is a document of value. The banker will generally be willing to advance money against the security of such a policy up to its surrender value, that is, up to the amount that the insurance office itself would be prepared to repay to the policy-holder on his abandoning the continuance of the insurance and handing back the policy to the office. The surrender value of any policy at any time can always be ascertained by application to the office from which it was issued. The banker advancing upon it would take possession of the policy, and might require it to be assigned to him. To this end the insured person would be asked to send a formal assignment to the insurance office making over for the

time being, to the banker, the rights in the policy; and the banker would want to hold the insurance company's written acknowledgment of the assignment. He would also want the receipts for the premiums as they were paid on falling due. Unless he saw these, the policy might be allowed to lapse without his knowing anything about it.

(5) *Bills of Lading as Security.* Where an importer had to pay for imported goods before he could sell them, his banker would usually be willing to advance a large part of their value should the importer desire him to do so. But the banker would require the bill of lading for the goods to be handed over to him. Should the bill of lading have been surrendered to the shipping company in exchange for the goods, the banker would require in its place the dock or warehouse warrant of the dock authority or warehousing company which held the goods in store. In either case, with bill of lading or warehouse warrant made out to the importer's order, he would be required to endorse it to the banker. For goods still on the sea, the bill of lading should be accompanied by the marine insurance policy, also endorsed by the insurer; and for goods warehoused at the docks, the warehouse warrant should be accompanied by a covering note or a policy, taken out by the importer, against the risk of fire during the period of storage.

Very commonly it is the exporter of goods, either from or to this country, that applies for an advance upon them at the time of exportation. The usual procedure is for the exporter to draw on his foreign buyer, to attach to this draft the invoice for the goods, the shipping company's bill of lading, and the policy of marine insurance. These documents he hands to the bank—probably an office in the exporting country of a bank carrying on business in the country to which the goods are being sent. The bank undertakes to collect the amount of the draft from the customer abroad, and in the meantime pays to the exporter the whole or the larger part of the amount of the bill. Shipments of raw cotton, wool, and produce generally coming to this country

are financed in this way. This function of the banker is explained at greater length in Chapter XI under Foreign Bills.

(6) *Discounting Bills of Exchange.* What are in effect advances to their customers are regularly made by bankers by means of the discounting of bills of exchange. This manner of using his funds to profit is peculiarly suitable to a banker, because the dates of repayment in these cases are fixed, and because the money so laid out is not locked away for long periods, nor placed all in one quarter; but, after being out for short periods only, is continually returning to the banker as bill after bill matures. A trader has, say, an acceptance for £480 payable three months hence and passed to him by a customer of his own. The trader is short of ready cash and, acceptance in hand, approaches his bankers for assistance. If the bankers believe the bill to be a genuine trade transaction and are satisfied about the reliability of the acceptor, or feel they can trust the holder, or see amongst the endorsements on the bill the signature of a business house of undoubted reputation, they will not hesitate to discount the bill for their customer. They will advance him the value of the acceptance less discount at an agreed rate per annum for the time the bill has still to run before payment will be due. The full amount of the acceptance they will credit, and their charges for discounting it they will debit, to the customer's account. It ought to be repeated here that banker's discount differs from interest in this—that it is calculated on the full amount of the bill and not just on the sum advanced. For example, on a bill of £480, with 85 days to run and discounted at $4\frac{1}{2}$ per cent. per annum, the charges would be—

$$£4\tfrac{1}{2} \times 4{\cdot}8 \times \frac{85}{365} = £21{\cdot}6 \times \frac{17}{73} = £5\ 0s.\ 7d.;$$

and the sum actually advanced would be £474 19s. 5d. The bill passes into the bankers' possession after endorsement by the customer. It is, in effect, another form of security that the bankers hold until the bill is due for

payment, when they present it for that purpose to the acceptor, and so receive back from him the value they had paid beforehand to their customer. But the bill differs from the preceding forms of security in that, at the time of discounting, it becomes absolutely the bankers' own property. In case of dishonour, however, the bankers have the same right of recourse to previous parties that a holder has in bill transactions generally. Should dishonour occur, they immediately charge to their customer's account the full amount of the bill, together with any expense they have incurred by reason of the dishonour, and they hold him responsible for payment; unless, of course, they prefer to seek their remedy with one of the other parties to the bill.

7. Additional Facilities. Of the remaining functions that a banker performs in fulfilment of his part in the commercial world, we may name first the payment of his customer's acceptances. For this he requires the customer to sign, in the same way as he would sign a cheque, a form describing the acceptance, and authorizing the banker to pay the amount when the acceptance is presented to him, and to charge it to the customer's account. The banker also undertakes, on his customers' behalf, the presentation for acceptance or for payment of drafts made by his customers on places at home and abroad; and the noting or protest of these drafts when dishonour occurs. He himself issues drafts on the head office, or on branches, of his own bank, or on other banks here or in other countries, either taking the value of the draft in cash over the counter, or debiting it under signed order to the account of the applicant, if the banker has a current account with him.

To persons about to travel in other countries, a banker issues *letters of credit* addressed to banks abroad. A letter of credit instructs the bank addressed to hold a specified sum at the disposal of the person named in the letter of credit. Bankers issue *circular notes*, or letters of credit addressed to several banks in different towns in the foreign land; such banks to pay out as required any sums up to the

limit authorized, and each sum so paid out to be endorsed on the circular note, so that only the balance will be available for the holder of the note at the succeeding places of call.

THE BRITISH BANK OF NORTHERN COMMERCE, LIMITED.
41, 43 AND 47 BISHOPSGATE,
LONDON, E.C.2.________, 19..

MESSRS.________________________, LTD.,
MANCHESTER

Dear Sirs,

We beg to inform you that a credit has been opened with us in your favour for an amount of ________________________________ ___________ say ________________________________ pounds__ account . HENRIK JOHANSEN & CO., CHRISTIANIA _______________ available by draft on this bank at ______ sight ____________ to be accompanied by clean bill of lading in complete set made out to order of ______ *Henrik Johansen & Co.* ______, invoice, policy of insurance __________________ covering shipment of ___________ cotton piece goods ____
____
_______ from English to Norwegian port ______________________
____

This credit remains in force until ____________, 19..

Drafts hereagainst will be duly honoured by us on presentation, if drawn in conformity with the terms hereof.

Yours faithfully,
For and on behalf of
THE BRITISH BANK OF NORTHERN COMMERCE, LTD.,
____

The foreign banks cashing letters of credit recoup themselves by means of drafts on the issuing banks here, which drafts they sell in their own country to buyers of English bills. On this page is shown in blank a specimen notification of the *opening of a credit* in London, to be drawn against by an English trading house in payment of goods ordered from that house by a Norwegian buyer. Because the bills of lading and insurance policy are to be attached to the draft issued,

the name "documentary credit" is given in this case. In another case, a "clean credit" might be opened to be drawn on without the documents named.

A bank will receive money for credit of an account at the bank, whether the money is paid in by the owner of the account, or by other persons. When the public subscribe for shares in a new company, they are usually required to pay their subscriptions direct to the company's bankers for credit of the company's account. A bank in one town may receive money for credit of an account in another town, even when the bank in the second town is not one of the first bank's branches. A customer may give his bankers a *standing order* to make on his account periodical payments such as rents or subscriptions, and the bankers will without further instructions undertake to attend to these payments as they fall due from time to time. In special circumstances and by special arrangement, a bank will also accept drafts made upon it by instructions of its customers here, or by its correspondents abroad, the reason for this practice being that a bill drawn or accepted by a bank passes from hand to hand more freely, and is discounted at a slightly lower rate, than one accepted by a more obscure trader. The bank is known to be safe by the dealers in foreign bills, whilst the trader's position may be doubtful.

The making of inquiries from other banks about the status of persons with whom customers desire to open new accounts is a service that banks render free of charge. So is the storing in their strong rooms of deeds, or jewellery, or similar valuables belonging to their customers, and for which the banks issue receipts that must be surrendered when return of the articles is claimed. Banks will help customers in regard to investments and the collection of dividends. Perhaps they will advise them about the buying and selling of stocks and shares; but the buying or selling will be done through the intermediary of a stockbroker and the Stock Exchange. Many of the banks have taken powers to act, when so required, as the executors or trustees of deceased customers. The issue

of bank notes is, in England, entirely confined to the Bank of England, and is dealt with in Chapters XIX and XX.

8. Banker and Customer. On a deposit account the banker is the debtor of the depositor, just as any other borrower is the debtor of the lender, and he is liable to repay the debt on expiry of the agreed notice duly given. On a current account that is not overdrawn, the banker is again the customer's debtor; but liable this time to pay on demand. Demand takes the form of a cheque drawn by the customer and made payable either to himself or to another person. The cheque is the banker's authority for parting with the customer's money, and to be a valid discharge it must be regular as regards drawing and endorsement. It is the banker's duty before paying to see that the cheque is in order. This was explained in Chapter IX. Where the banker pays a cheque in which the drawer's signature has been forged, or in which the amount has been fraudulently altered and increased, he is liable as a rule to make good the amount to the customer's account. When he dishonours a customer's cheque without due cause, he renders himself liable to an action by the customer for damages. But dishonour of a cheque is a matter between the banker and his customer only. No other party to a cheque may make a claim on the banker for refusal to pay. The holder of a dishonoured cheque must seek his remedy against the drawer or endorsers.

On a current account that is overdrawn, or on a loan account, the banker is the customer's creditor; and his rights to repayment, to interest, and to the realization of securities left with him, depend on the agreement made with the customer when the overdraft or loan was granted.

Apart from any special agreement, a banker has a *general lien* on property left with him as a banker. That is, he may retain such property until any claim he has against the customer is satisfied. For example, bonds with interest coupons attached are subject to "banker's lien" when the banker has possession of the documents for the purpose of

detaching the coupons and collecting the interest. But it is questionable if a banker's lien attaches to property left with him merely for safe custody, as that service might not be held to be ordinary banking business.

In the performance of some services, the banker's capacity is only that of agent of the customer. In collecting a cheque or presenting an undiscounted bill for payment, he acts simply under the customer's expressed or implied authority until the value has actually been received and placed to the customer's credit. It is then only that the relationship of debtor and creditor begins in regard to the amount of the cheque or bill. So in the paying of a customer's cheque or acceptance, if the banker were careless and paid without due scrutiny of the draft and with consequent loss to the customer, it would be for the banker's negligence in his duty as agent that the customer would claim redress. Even when he gives his services free of charge, a banker, like other persons, may render himself liable because of negligence or misrepresentation on his part.

A banker must himself be careful in dealing with agents and trustees. An agent may possess authority to endorse a cheque with a *per procuration* signature; but it is the banker's duty to satisfy himself that such an endorsement is not made for purposes outside the scope of the agent's authority. If the banker saw a cheque so endorsed being paid by the agent into his private account, the banker should at once inquire as to whether the agent were not wrongfully applying the proceeds to his own benefit, and to the detriment of the principal for whom he was ostensibly acting in making the endorsement. Such a transaction would amount to notice of irregularity which the banker would not be justified in overlooking. A banker would be affected in the same way by a cheque drawn on a trustee account in the trustee's own favour and paid to credit of the trustee's private account. For such reason a banker prefers not to keep trust accounts; but to deal with customers in their own names and in their own rights, so as to free himself from the

responsibility of watching for irregularity in the disposal of trust funds.

9. **Termination of the Customer's Authority.** The banker's authority to pay a customer's cheques ends with—

(i) The exhaustion of the customer's funds, or of those agreed to be placed at his disposal;
(ii) Receipt of the customer's countermand of payment for any particular cheque previously issued and not already paid;
(iii) Death of the customer;
(iv) Notice to the banker of an act of bankruptcy on the customer's part;
(v) Official declaration of the customer's lunacy;
(vi) Receipt from the Court of an order garnisheeing the customer's account.

The customer has always the right to change his mind after issue of a cheque and to instruct the banker to withhold payment, provided the cheque has not already been paid. A telegram containing instructions not to pay would not of itself be sufficient; but would need to be supported by evidence of its genuineness. The usual course in countermanding payment is to send the banker a signed letter telling him to stop payment of cheque No._____, dated_____, in favour of_______, for £_____. When a banker hears that a customer has died, he stops payment of any of the customer's cheques that may afterwards be presented. The reason is that death terminates the relationship of principal and agent between the customer and the banker. As regards any funds that are in the banker's hands, he will eventually take instructions for their disposal from the executors or the administrators of the deceased; but before recognizing the representatives of the late customer, he will require to have exhibited to him the probate of the will, or the letters of administration of the estate. On the other hand, death of a person who has signed a cheque as agent of the drawer (*e.g.*, as director or other officer of a company) will not cause payment of the cheque to be withheld; for death of the drawer's agent is quite a different thing from death of the drawer himself.

After learning, whether incidentally or not, of an "available act of bankruptcy" (*see* Chapter XXVII, Section 12) on the part of a customer, if the banker continued to honour the customer's cheques, he would find himself liable to repay the amount of these cheques to the trustee in bankruptcy, were one afterwards appointed. And the banker would have no right of claim in respect of these cheques against the bankrupt's estate. If he should, however, pay a cheque without knowing of an act of bankruptcy, he would probably be protected; but not after the customer had been adjudged bankrupt by the Court. Notice of adjudication would be published, and the banker would be presumed on that account to have knowledge of the fact. When a man is legally declared insane, his affairs pass into the hands of a person or persons appointed as his "committee," and the banker will deal with the committee in the same way as with executors. A garnishee order is an instruction issued by a court of law on the application of a creditor, requiring that funds due, by a third party, to the creditor's debtor shall be held at the disposal of the Court. The third party may be the debtor's banker. Even when the debt, in respect of which a garnishee order was served on a banker, equalled only part of what the debtor had at the bank, the banker would probably cease to honour any of the debtor's cheques.

CHAPTER XIX

THE GROWTH OF ENGLISH BANKING

1. **Before the Bank of England.** History gives us glimpses of banks flourishing or failing in fourteenth-century Florence. Venice and Genoa, too, had their private bankers; and each of these rival republics ran its State bank for several centuries. At the very centre of our English banking system the name of Lombard Street preserves to this day a trace of the Italian merchants who carried on their lending and changing in London hundreds of years ago. The Bank of Amsterdam was founded in 1609, the Dutch being then the most active of seafaring and merchanting people. With us, in England in the seventeenth century, government was too little trusted for a great public bank to be set up. Kings were needy persons, not over-nice at times about methods of getting hold of cash. Nor were they always faithful in fulfilling their promises to repay. Yet, even in such days, the practice had begun of leaving money and other treasure in the keeping of the London goldsmiths, whose business necessitated the provision of places of safety where their own possessions could be stored away secure from fire and robber. The practice grew, despite the fact that goldsmiths sometimes failed. Their business took on more of a banking nature. They gave interest on the money lent to them whilst re-lending it at a higher rate. They issued acknowledgments in exchange for their customers' deposits, and these goldsmiths' notes were the forerunners of the bank notes of to-day—for the bank note, though it soon came to be used in other circumstances, was in origin merely a promise to repay money that had been deposited with the bank. To some extent, the transfer of goldsmiths' notes from merchant to merchant came into vogue as a means of making

payments; and in the issue of drafts on the goldsmiths, payable to third parties, is to be found the beginnings of the present-day bank cheque.

2. The Bank of England founded 1694. The accession of William III, with the establishment of Parliamentary control over national finance, brought the confidence that had been wanting for the founding of a powerful banking institution. And the military enterprises of the King brought the need of collecting funds with which to prosecute them. The need became urgent, and some means had to be found of raising money. Thus it was that the ministers of the time took up a scheme propounded some years previously by an ingenious and speculative Scot named William Paterson. Notwithstanding considerable outcry from the money-lending interests and from opposing political forces, a bill embodying the terms of this scheme was passed through Parliament; and the Bank of England came into being in 1694. The capital of £1,200,000 was subscribed in ten days. The whole was lent to the Government at 8 per cent. per annum on security of the State revenue, and with the beginning of the Bank there was also laid the foundation of our National Debt.

The Bank was one of the earliest undertakings to which the principle of joint-stock ownership was applied. At its inception the business of the institution was conceived to be primarily and mainly the lending of money to the State; and the money it used in transacting that part of its business was the capital paid up from time to time by its own stockholders. In this respect the Bank of England of the early days differs materially from the joint-stock banks of recent times. In these, the capital paid up by the shareholders is comparatively small—so small, in many instances, as to be little more than enough for providing buildings and equipment; whilst their working capital, or the money they lend out, is drawn almost entirely from the funds deposited with them by their customers. Still, the business of the Bank of England has changed; and it, too, now holds a large sum of depositors' money, of which it makes similar use.

Also, though the largest of the other banks have smaller capitals than the Bank of England, all of them possess large reserve funds; and behind these they have uncalled capital to fall back upon.

That the House of Commons might retain control of national finance, the Charter of the Bank prohibited any further advance to the Crown without Parliamentary sanction. The Charter gave the Bank power to issue notes to the public up to the amount of the £1,200,000 borrowed by the Government; also power to deal in bills of exchange and bullion, and to make advances on security. It reserved to the Government the right of paying back the loan on giving twelve months' notice from 1st August, 1705; and had this right been exercised, the Bank would automatically have come to an end when the repayment was made. The Bank of England has always been closely connected with the State. It keeps the Government's banking accounts, and acts for the State in all matters, such as the raising of loans and the payment of interest. Nevertheless it is not a national bank in the sense of being managed by the State, like the Post Office Savings Bank, the recently established Commonwealth Bank of Australia, or the State banks of the Continent on whose boards of management their respective Governments are represented. The Bank of England is an independent company whose Court of Directors is under no control by the State other than that indirectly involved in the duties and restrictions placed upon the Bank by statute.

3. **The Bank's Monopoly of Issue.** From the fact that the Bank was granted but a few years certain of existence, it may be inferred that its possibilities were not foreseen. Its projectors themselves had probably no clear vision of the influence that the Bank was destined to exert not only on the Government's monetary affairs and on British commerce, but throughout the financial world. At intervals its Charter was renewed, each renewal usually accompanied by some re-arrangement of its powers. At these times additional loans were made to the Government, the Bank's rights to

issue notes correspondingly extended, the interest it was to receive readjusted, and its capital increased. By 1816 the capital reached £14,553,000; and, in 1833, the permanent loan to the Government settled down at £11,015,100. These are the figures that stand to-day.

Before and after the establishment of the Bank there were several rival schemes brought forward. Perhaps the most serious competitor as lender to the Government was the South Sea Company founded in 1711—a venture sustained for a time on highly illusory prospects and whose stocks, in the midst of an orgy of general speculation, reached a premium of 900 per cent. But in 1720 the company collapsed, and the Bank of England took over from it £200,000 of Government annuities at twenty years' purchase, thereby increasing the capital of the Bank in 1721 by £4,000,000.

On the occasion of a previous increase in 1708, the Charter had been renewed with the added privilege, that no other body of persons exceeding six in number should be allowed in England to issue notes payable to bearer on demand or at less than six months from the date of issue. This monopoly remained in force till 1826. In those days the method of making payments by drawing cheques against money deposited at a bank was not appreciated, and had not been developed. The issue of notes payable to bearer was considered to be an essential function of every bank. So much did this view prevail, that, in face of the Bank of England's privilege as regards note issue, no attempt was made in England to bring into existence any other corporate undertaking for the purpose of conducting banking business. As a consequence, the provision of banking facilities in the provinces was confined for more than a hundred years to small private firms of limited resources. The result was bad; failures were frequent; and the country was subjected to spells of financial panic. In Scotland, where the restriction did not apply, joint-stock banks were early established, and the banking system was built on a more stable basis. At this time the Bank of England had not opened branches in the

provinces, and its notes hardly circulated out of London. The money needed outside London was supplied largely by the note issues of the country bankers. But whenever the public faltered in its confidence, and began to cash the notes it held, these bankers found difficulty in continuing for long to meet their obligations under their notes; and many had to close their doors. It was always a great temptation, easily yielded to when trade was good and money in demand, to make extra profits by issuing large numbers of notes as loans to customers. More than a century of rude buffetings was needed for the lesson to be taken well to heart, that an adequate reserve of coin and immediately realizable securities must always be held in readiness to meet emergencies unforeseen; and that a banker's best means of restoring confidence is to pay out from his reserve boldly and with the utmost readiness.

4. **The Restriction of Cash Payments.** The Bank of England had its troubles too. For instance, soon after its formation an attempt was made to wreck the Bank by suddenly presenting for payment notes to the amount of £30,000. Again, in 1745, when the Pretender and his Highland followers were marching south to Derby, the Bank found itself most inconveniently busy paying out coin for notes. Also, in 1797, with a French invasion imminent, demands on the Bank became so great that its stock of precious metal nearly vanished before the Government could step in and order the cashing of the notes to be suspended. Nevertheless the public feeling with regard to the Bank of England was usually one of confidence. In 1745, as well as in 1797, the principal merchants of the City met together and agreed that they would take the Bank's notes freely in payments offered to them, and would encourage others to do the same. The belief existed then, as it does now, that in a crisis the Government would stand by the Bank; and this presumption put its issue on a different footing from those of the private banks. Bank of England notes did not become legal tender until 1833, yet long before that the other banks were able to use

them, even in times of stress, as an alternative for coin in cashing paper of their own.

Country bankers issued so many notes and for so small sums, that, in 1775, those under £1, and two years later those under £5, were prohibited. For a long time the Bank of England's smallest note was for £20, but in 1759 £10 notes were printed, and in 1793 the £5 note appeared. During the suspension of cash payments, however, the need for smaller currency was met by the removal of the prohibition just mentioned. £1 and £2 notes were issued by the Bank, and payment in coin of sums over 20s. was discouraged. Though intended to be temporary only, the inconvertibility of the note lasted for twenty-four years, being maintained long after alarm for the country's safety had subsided. In the Bullion Report of 1810, a committee of the House of Commons recommended the resumption of cash payments; but, from political motives, the advice was disregarded. The note issues were, on the contrary, allowed to expand beyond the country's needs for currency. Because there was an excess of money in circulation, the currency became depreciated; and, because it consisted almost entirely of paper that could not be turned into gold for payment of debts abroad, the foreign exchanges went against us. By 1814 the face value of the Bank of England note was as much as 25 per cent. below the price at which gold bullion was being sold. Then the occurrence of extensive bank failures rendered many country note issues useless, and so raised the value of the remainder. This brought the Bank of England note to a level with gold, and prepared the way for the notes being made convertible again. By 1821 the cashing of the notes had been resumed, with gold that had in the meantime accumulated in the Bank's vaults.

5. **Emergence of the Joint-Stock Banks.** Owing to the continual recurrence of financial crises, Parliament began to experiment, having in view an improvement of the banking conditions in the country. At the beginning of the nineteenth century there were in existence: (1) the country banks,

usually small private concerns running without Government interference their own issues of notes; (2) the London private banks, a few reputable houses which had ceased to issue notes in competition with the Bank of England, and which were turning their attention to the development of deposit banking and the use of cheques; (3) the Bank of England, the only joint-stock bank in the country, dominating all the other banks by virtue of its relations with the Government and of the privileges it enjoyed. But in 1826, Parliament so far modified the monopoly of the Bank of England that, beyond a radius of sixty-five miles from London, banks of more than six partners were to be permitted to issue notes. The same year the Bank of England was urged to open its first provincial branches. In 1833, whilst renewing the Bank's Charter, it was affirmed by Parliament that banks with any number of partners might be established in London itself, or anywhere within the sixty-five-mile limit, provided no notes were issued by them. Joint-stock banks began to spring up in the provinces. The Metropolis saw the formation of the London and Westminster Bank in 1834, and a number of others followed. In 1858 the advantages of limited liability were first extended to banking companies, with the proviso that, for repayment of the notes issued by any bank, the liability of its proprietors should continue to be unlimited.

At first the management of these new banks left much to be desired; but improvement came as time went on. Finding that a right to issue notes was not a vital matter to a bank, they concentrated their energies on other services, particularly on the handling of deposits, and on the cashing and collecting of cheques drawn against deposits. By opening branches and laying themselves out to meet the wants of the public, the joint-stock banks gradually developed into the type of bank we know so well to-day.

6. The Bank Act of 1844. The Bank of England had now definitely adopted a careful policy in the maintenance of a gold reserve. But the small country banks and many of the

new joint-stock banks believed themselves free to issue vast quantities of paper, and were giving little thought to the right that these notes carried for the demanding of gold in exchange whenever the holders of the notes pleased to ask for it. A time of expanding trade and credit was soon followed by the usual quick contraction at the scent of danger. Once more many banks were unable to meet their obligations, and Parliament under the lead of Sir Robert Peel had to try its hand again. It was seen that the issue of notes was far too important an operation to be left to the unregulated competition of numerous banks. The Bank Act of 1844 was passed, and a new policy put in force which remains operative at the present day. The issues of the country banks were arrested and their gradual extinction provided for. Any future expansion of the note circulation was to be allowed only in the issue of the Bank of England, and that was strictly regulated. The following are the chief provisions of this Act—

(1) The business of the Bank of England was to be divided into: (*a*) an *Issue Department* worked according to the regulations of the Act, making that department and its issue entirely Statute-controlled; (*b*) a *Banking Department* which the directors were free to manage in their own way.

(2) All coin and bullion not required for immediate use were to be deposited in the Issue Department and notes given out for the amounts so deposited. (*Bullion* means gold or silver in bars, as distinct from *specie*, which means the metal in the form of coin.)

(3) The Bank's issue of notes was, to the extent of £14,000,000, to be made against Government securities. This is called the *Fiduciary Issue* of the Bank. Chief amongst the securities was the £11,015,100 owing by the Government. It was inferred from past experience that the circulation was not likely at any time to fall below the sum fixed for the fiduciary issue.

(4) For every note given out in excess of £14,000,000, the Issue Department was to keep coin or bullion in hand. At least four-fifths of the store must be gold; the remainder might be silver.

(5) The Bank's monopoly of issue within sixty-five miles of London was to continue.

(6) The issue of any country bank was never in future to exceed the ascertained average of the twelve weeks immediately preceding the 27th April, 1844; and no new right of issue was to be allowed.

(7) Country bank issues were to lapse in certain eventualities, and under Order in Council the Bank of England was to have power to increase its fiduciary issue by two-thirds of any such lapse.

(8) The Issue Department was on demand to pay out notes for gold bullion at the rate of £3 17s. 9d. an ounce.

(9) An account showing the position of each department was to be published every week.

When this Act was passed in 1844 there were in existence 279 English banks of issue. Under the working of the Act the number gradually declined until, at the beginning of 1921, the last issue lapsed on the absorption of Fox, Fowler & Co. by Lloyds. The position of the Bank of England's issue when the European war began is shown in the specimen Bank Return in Section 7 below. Every note likely to be returned to the Bank at any time, even in a panic, has coin or bullion in the Issue Department awaiting its return. Against the remainder of the issue, which is not likely to be presented for payment even in the worst times, Government securities are held. So long as the Act continues in force, and nothing phenomenal happens, the convertibility of the Bank of England note is assured.

But the Act makes no provision for a sudden and excessive demand on the Bank for *notes*, as when in shaky times bankers draw on their balances at the Bank for extra supplies of notes, so as to be prepared to satisfy the clamour of their customers. The extent to which the Bank of England can meet such a demand is limited under the Act by the stock of gold it holds at the time. Yet, as is explained in Chapter XXI, such demands have several times been carried so far that the Bank would not have been able to meet its depositors' claims, had not the Government authorized the suspension of the Act and the issue of more notes without the corresponding deposit of gold. Moreover, Sir Robert Peel in drafting the Act did not see that in ordinary circumstances the importance of bank notes had already begun to decline; that the use of cheques was to increase to such an extent as to make that kind of money preponderate over all others; and that these cheques would give to their holders the same power as bank notes do to take payment over the counters of the banks, and so draw away the banks'

reserves. But, had not the cheque system or something like it come into use, the development of trade would have been greatly hindered[1] for want of adequate currency. Besides, the cheque is a more highly-specialized and, for most business purposes, a much more convenient and safer instrument than the note.

In 1845 the Scotch and Irish note issues were also put under regulation by Act of Parliament. For every note issued in excess of a certain average, the Scotch and Irish banks were required to hold in hand the equivalent in gold. Since that time the note issues of the whole country have been under statutory control.

7. The Bank Return. The following is a copy of the Bank of England Return for the second week in July, 1914, that is, a fortnight or so before the war with Germany began—

An Account, pursuant to the Act 7 and 8 Vict. cap. 32, for the week ended Wednesday, the 15th July, 1914.

ISSUE DEPARTMENT.

	£		£
Notes Issued . .	56,908,235	Government Debt .	11,015,100
		Other Securities .	7,434,900
		Gold Coin & Bullion	38,458,235
		Silver Bullion . .	—
	£56,908,235		£56,908,235

BANKING DEPARTMENT.

	£		£
Proprietors' Capital	14,553,000	Government Securities	11,005,126
Rest	3,431,484	Other Securities .	33,623,288
Public Deposits .	13,318,714	Notes . . .	27,592,980
Other Deposits .	42,485,605	Gold & Silver Coin .	1,596,419
7-Day & Other Bills	29,010		
	£73,817,813		£73,817,813

J. G. NAIRNE,
Chief Cashier.

In the account of the Issue Department, the entry on the left-hand or liabilities side shows the total issue of notes by

[1] By the operation of Provision 4, page 253.

the department on the date of the account. The notes in *active circulation* are found by deducting from the total issue the amount shown on hand in the Banking Department. On the assets side there appears, first, the Government Debt and, next, Other Securities, which two items together make up the amount of the *fiduciary issue*. The Government Debt stood at this figure of £11,015,100 before the Act of 1844; but, by the exercise of its rights to two-thirds of the lapsed issues of other banks, the Bank of England has since the date of this return increased the item of Other Securities, and raised the fiduciary issue to £19,750,000. The remaining asset is the Gold Coin and Bullion required by the Act to be held against every note issued above the limit allowed against securities. Though the Act permits a proportion of silver, none is held by this department.

In the account of the Banking Department, the liabilities of the Bank to its outside creditors are shown by the three items: Public Deposits, Other Deposits, and Seven-day and other Bills. The first of these heads refers to money lying at the Bank in Government accounts, and paid into the Bank by the collectors of customs, excise and taxes, by the Post Office, or from other sources of State revenue. It includes also money lying at the Bank to credit of the Secretary of State for India. The Other Deposits represent funds due from the Bank to customers other than the Government, a large part of this amount consisting of deposits placed in the Bank of England by the other banks. That the other banks keep accounts at the Bank of England was mentioned in connection with the Clearing House in Chapter X, and will be referred to again in Chapter XXI on the "Money Market." The Bank does not allow interest on any of its deposits, and the money is repayable on demand, so that these accounts correspond more nearly to the current accounts than to the deposit accounts of other banks. The third item, Seven-day and other Bills, shows the amount that the Bank is liable to pay on drafts that have been issued by request of its customers. The form known as a *Bank Post Bill* is

drawn by the Bank on one of its branches (or *vice versâ*), payable at seven days' sight, and issued free of charge. Before cheques became so common, this form of bill was in considerable demand for the purpose of remittance. When mail-coach robberies were frequent, the Bank Post Bill gave its owner the means of effectually stopping payment if the bill were stolen in transmission.

First among the assets of the Banking Department comes the item, Government Securities. These are investments such as Consols, War Loan and Treasury Bills, or advances to the Government, in which the Bank has for the time being placed some of its funds. Next comes Other Securities including investments in securities that are not those of the Government, advances to customers, and bills discounted with the Bank. The remaining items on the same side—the Notes and the Gold and Silver Coin—together make up the *cash reserve* that the Bank holds in readiness to meet immediate claims. For this purpose it is the Bank of England's practice to keep in liquid form a much larger proportion of its assets than the other banks do, the rate of cash to liabilities in the Return given being 52 per cent. By the terms of the Charter, the Banking Department retains only sufficient gold for its day-to-day requirements; but if more be needed, some of the notes it holds are handed back to the Issue Department and coin is taken in exchange. The notes in the reserve are, therefore, just as good as the gold itself.

Two items on the liabilities side remain to be considered, viz., Proprietors' Capital and the Rest. The first of these explains itself. The second is simply an accumulation of profits that have not been distributed amongst the stockholders of the Bank. It contains the profits accruing during the current half-year, and when the Bank dividends are paid in April and October this item drops correspondingly. But it also serves as what, in an ordinary business, would be termed the Reserve Fund—a fund built up and maintained in order to add to the financial stability of the business it

concerns. For many years the Rest of the Bank of England has never been allowed to fall below £3,000,000.

8. Bank of England Business and Management. The Banking Department, in addition to acting as the bankers of the Government, conducts a general banking business, taking deposits, granting advances, discounting bills, and cashing and collecting cheques, just like the other banks. The Bank's peculiar position as the bankers' bank, as guardian of a large part of the other banks' reserves, and as controller to some extent of the discount and loan rates in the Money Market, is dealt with in Chapter XXI.

The management of the Bank of England is vested in a Court of Directors, the chairman bearing the title of Governor. Every director moves on in turn to be, first, the Deputy-Governor, and then the Governor, each of which positions he holds for two years only, and afterwards retires to an advisory body called the Committee of the Treasury. Vacancies on the Court of Directors are filled by nomination of the Court itself, confirmed by the proprietors. None of the other banks, or at least none of the home banks, is represented on the Court of Directors; partly, perhaps, because at first other banks were viewed merely in the light of possible rivals; now, for one reason, because the Bank of England is the other bankers' bank, and to elect a director from another bank would be to give that bank an unfair advantage over its competitors. Until recently the highest permanent official was the Chief Cashier; but a new post has been created with the name of Comptroller, the intention being apparently to give the Comptroller freedom to deal with the larger questions of policy and management, whilst the responsibility for the ordinary working of the Bank devolves on the Chief Cashier.

9. Banking Expansion and Amalgamation. The expansion and amalgamation that have taken place in this country—and much of both has taken place—coincide almost entirely with the activities of the joint-stock banks. Of the private banks existing formerly in London and in the provinces,

only a very few now remain. The joint-stock banks have absorbed the others and have opened many new offices besides. In England and Wales fifty years ago, the number of banking offices was under 2,000. Now it is over 7,000. Branches have been opened not only in business quarters, but in residential parts also. The customer with a small account is sought after, and cheques for small sums are exceedingly common nowadays. Several of the joint-stock banks have opened savings departments in which deposits of quite humble amounts are taken. During the last twenty-five years the deposit and current accounts of English banks have increased four-fold. The results of recent amalgamations are five joint-stock banks of outstanding size, all being as big as or bigger than the Bank of England. In the smallest of the five, deposit accounts reach the total of £200,000,000; and they are well over £300,000,000 in the largest.

In Scotland and Ireland, too, there has been a large expansion in the banking turnover; but there the identity of the several banks has not changed so much, nearly all of the present-day institutions having been in existence eighty years ago. Quite recently a new movement has begun whereby large English banks are becoming interested in those of Scotland and Ireland. The National Bank of Scotland, the British Linen Bank, the Clydesdale Bank, the North of Scotland Bank, the Ulster Bank, and the Belfast Banking Co. have passed into the control of English institutions. But the individuality of the Scottish and Irish companies, and the continuity and distinctiveness of their management, are to be preserved. The English banks have simply bought up the shares of the smaller affiliated concerns, which shares the English banks now hold, and they have paid for them by issuing new shares of their own in exchange.

As has been suggested already, the regulation of note issues by Act of Parliament did not prevent the recurrence of financial crises, or stop failures amongst the banks. For a long time the banks were mostly small undertakings of very limited resources in comparison with the monster

establishments of to-day, and when difficult times came, some of them were always likely to succumb. From 1844 to 1878 there were many failures. It was only after the amalgamation movement was fairly under way, when the banks had become bigger and stronger and better managed, that failures ceased. Since 1878 there have been very few; and, when one has occurred or been threatened, the other banks have been able to help in such a way as to allay public fear and to keep panic from spreading as it used to do. The small bank was much affected by animation or stagnation of local trade. The large bank, established over a wide area, is less dependent on the state of trade in any one district, and is therefore a more stable institution. Then, it has greater opportunities of employing its funds efficiently. Money accumulating in one part of the country where it is not wanted can be transferred easily to another part where it is needed. By amalgamation and absorption, country banks have acquired the advantages and the prestige of London; and London banks have been able to add a steadying element to their business, and to become less susceptible to the continuous changes of the Money Market. With most of banking business concentrated in the hands of a few large leading banks, swift decision and united action can be more readily secured in times of emergency, as on the outbreak of war in August, 1914. But combination has now gone so far as to create apprehension of the country's being subjected to the dictates of a money trust; and the Government has intervened by requiring that any further amalgamation shall be carried out only after sanction by the Treasury.

Many banks with head offices in London have been formed for carrying on business in the Colonies and in foreign lands, and others originating in the Colonies or elsewhere have opened offices in London. A few of these have now taken premises in Manchester or Liverpool, or have entered into arrangements with purely English banks, so that the numerous branches of the latter throughout the country shall be available as agencies for securing foreign business.

Much of this restlessness in banking circles may arise out of mere rivalry amongst the big banks; but much, again, is no doubt the outcome of measures for meeting after-the-war developments in trade, and the changed conditions that are coming at home and abroad. The Midland Bank has refrained from opening branches abroad, for the publicly stated reason that it has no wish to compete in their own territories with foreign banks which are its customers in London. Lloyds Bank and the National Provincial have joint branches in some of the continental cities, whilst Barclays Bank not only has continental branches, but is closely connected with several colonial and foreign banks whose head offices are in London, and whose branches are in distant lands.

CHAPTER XX

MONEY AND CREDIT

1. **The Need for Money.** That we may better appreciate the place of money in the modern world, writers on this subject frequently ask us to draw on our imagination, and to picture how we should manage our affairs were money non-existent. In the primitive state, every man finds for himself all his food, weapons, and adornments. But, when the elements of society emerge, men begin to rub along together, instead of each one for himself alone. Then, if Bruiser should take a fancy for a new stone-hatchet, he would proceed to negotiate for one with Towser, the shaggy flint-chipping artificer near by; and would offer him, perhaps, a bearskin in exchange. Similarly, in the juvenile world of to-day, when "Perkie" Smith tires of his nice new penknife, he "swops" it for the big kite of "Jaunty" Brown. Should it happen, however, that Bruiser needs only a needle of reindeer bone, or that "Jaunty" wants to keep his kite and has at present nothing for disposal but an old jews' harp; then the warm bearskin or the fine three-bladed piece of cutlery would be too much to part with in return. The absence of suitable possessions to exchange would prevent the bargains from being carried through, and the wants of our interesting friends would go unsatisfied. For them, as yet, effectual means would not have been found of extracting from their surroundings the fuller measure or richer variety they desire of life's good things. The builder with a house to sell, and only the shoemaker to buy it, could hardly take its value out in footwear entirely. His wants would embrace few boots and much of many other things.

Turning again to the bargaining proclivities of our boys, let us suppose that marble-playing is in season, and that in quarters interested fair supplies of the necessary equipment

are circulating. Smith appraises his knife in terms of that supply and decides that it is worth six "glassies" and a score of "stonies." Brown, who wants the knife, is several stonies short, but Green has pockets bulging with them, and by means of the old jews' harp he is easily induced to disgorge some eight or ten—enough for his comrade's present needs. Smith gets his score and six, and then promptly transfers half of them to a fourth boy Maddox, for three special foreign stamps Smith means to add to his collection.

Youthful wits have discovered that marbles may serve other ends than miniature games of bowls. They have set the marbles up as a measure wherewith to value their disproportionate belongings; and, at the same time, have caused one kind of article—acceptable in varying quantities to all of them—to operate as a medium into which any other article may be temporarily converted, and by which many hitherto impossible exchanges can now be accomplished. The marbles have been used as actual money. Just so, in different lands and in different times, many kinds of wealth, movable or portable, from cattle to cowry shells, have been put to similar duty—cattle, maybe, because they could be driven easily from place to place; cowries, perhaps, because where pockets are unknown, they can be strung to carry round the neck, leaving the hands free for other work. But, in the course of time and from several causes, the more civilized of peoples have all settled down to the use of gold or silver for purposes of money. When the Indian trapper and the Canadian trader exchange furs for firearms, we call the transaction *barter*. When, in other circumstances, goods are exchanged for money, we say that the parties *buy* and *sell*.

If this explanation is correct, that the purpose of having money is to help in the exchange of commodities, it must follow that any restriction of the supply of money will hamper the people in their endeavours to satisfy their wants; and that any increase in the supply will have an opposite effect. With the community as with the individual, the more money it gets, the more it will spend. Plenty of money

in the pockets of the people will help to make trade good; a want of money will make trade very bad.

2. The Functions of Money. The dissertation above is intended to illustrate several points regarding the functions of money, which points may now be set down in more formal terms. Money serves as—

(1) *A Medium of Exchange.* It has been suggested:

(i) That, in the barter stage of society, what A wants to dispose of is seldom what B wants to acquire; or that what B has to give in exchange is not always what A cares to take.

(ii) That, when both parties do happen to get suited with the kinds of goods they propose to exchange, the value on the one side is often too high or else too low for the value on the other.

(iii) That money originated in the need for some medium into which goods for disposal could be temporarily changed, and the medium then held until an opportunity came of re-changing it advantageously for goods of another kind.

(iv) That, like the marbles in the illustration, the medium of exchange must possess in considerable degree certain qualities, such as being portable, divisible, and generally acceptable to all parties concerned.

Money, then, is the medium or instrument by which numerous commodities are distributed amongst the members of a community in exchange for commodities of other kinds. The medium selected must have had a value for some different purpose before it was used as money; otherwise it would never have come to be taken in exchange for goods. Further, if it is such that it can retain its value permanently, it may be kept in hand without losing its power to serve again as money on some indefinitely deferred date, or in some more or less distant place. Let the right kind of medium be selected, and not only can it be used in transactions where its payment out again takes place soon after its receipt; but it can be used also where the payment out again may not be made for many months or years. In other words, money can be used for *storing up value* in saving or hoarding, or in making provision for liabilities to come.

Next, money serves as—

(2) *A Measure of Value.* For measuring lengths and distances, we have a standard unit called the "yard," and we express the lengths and distances in multiples or fractions of that standard. For weights, which are measures of mass, we have another standard known as the "pound-weight." So, for prices, or measures of value in buying and selling, we have a different standard again—the "pound sterling"; and we measure prices in multiples or sub-multiples of that. The pound sterling or money-pound was originally a pound-weight of silver metal; but now it is a unit quite independent of the pound-weight, namely, the coin called a "sovereign," a piece of gold of certain quantity and fineness. The value of any given lot of goods is expressed by the number of these gold pieces that the goods will be exchanged for. Value, thus expressed in terms of money, is called *price*.

It has been explained how money arose because of the difficulty of carrying on trade without a common medium of exchange for all commodities. When such medium was generally adopted it would naturally become at once the measure by which traders valued their merchandise before sale, or for purposes other than sale. That the terms "medium of exchange" and "measure of value" are names for distinct functions will be plain, if we consider that prices must be named and values measured even in unsuccessful attempts at sale or purchase, where no business follows and, therefore, no medium of exchange comes into use. And, given an available medium whose value does not rise or fall from time to time, it can be used as the measure of value not only in dealings to be carried out at once, but also in contracts about goods to be delivered in the future. This is what is meant by saying that money serves as a *standard for future payments*. In tenancies, in services intended to continue for lengthy periods, or in loans to be repaid at distant dates, hardship will fall on one or other of the parties if the measure of value is a substance whose purchasing power changes in the meantime.

3. **Attributes of Money.** (1) It is essential that money, which is used to measure the value of other things, should *itself consist of something that has value.* If gold had not been of value before it was selected as a medium of exchange, it would never have been so selected. Much of our money now, however, consists of written or printed documents of the most meagre value if taken merely as paper and ink. But the documents carry with them rights, the extents of which are expressed upon them in terms of sovereigns and parts of sovereigns. It is in these *rights*, so long as they remain realizable, that the value of paper money lies, just as the value of many documents not used as money rests in the titles that they convey. Further qualities necessary in money are that it should be—

(2) *Recognizable as Genuine.* If gold could not be distinguished from brass or from gilded lead, it would not make good money, for one would never know a genuine from a counterfeit coin. But gold is not easy to counterfeit. Again, not only the metal of which a coin is made, but the purity and the weight should be beyond question. For that reason the Government keeps the coining of money in its own hands. All coins are stamped full over both faces, and the edges of all but the lowest in value are milled. The stamping serves as a hall-mark or certificate of standard fineness and weight; whilst stamping and milling together render it impossible, without immediate detection, for the coins to be tampered with during circulation. The issue of counterfeit money, in either coins or notes, is subject to severe penalties, and every effort is made to prevent its occurrence.

As regards a cheque, its genuineness, though important, is not so highly important as that of a coin or a note. Cheques may be refused as not being legal tender; but gold coin, Bank of England or Treasury notes, cannot be refused. Besides, cheques do not circulate freely from hand to hand. Each is commonly made use of only to settle a single transaction, and is presented at once for payment, so that the worthlessness of an odd cheque here or there is discovered

without delay. And, if it is an order cheque, the parties to it can be traced and claim made against them for the damages, which is not usually possible on discovery of a spurious note or coin.

(3) *Durable or Imperishable.* Whatever substance is chosen to perform the functions of money in continuous circulation, it should not be subject to decay, and should not wear out quickly. Though a piece of paper is not a durable article to use as money, the right it evidences may be lasting enough if its material substratum is renewed occasionally. The high destructibility of paper money by fire, or wear, or tear is outweighed by manifest advantages.

(4) *Portable*, that is, easily carried about or moved in quantities from place to place. For large sums, gold is too heavy; but iron or granite would be much more cumbersome; and its high degree of portability is one of the advantages of paper. For very small sums, again, gold coins would be pieces of impracticably minute dimensions; so silver and bronze coins are used to represent fixed fractions of the sovereign. Nickel is used in some countries and gives a lighter coin than bronze for the lowest values.

(5) *Divisible into Proportionately Equal Parts.* A money medium must be not only divisible, but homogeneous; that is, different samples and different parts of the same sample must be of equal quality. Not every substance gives this uniform quality throughout. One portion is often less valuable than another, and small portions taken together may not be worth the same quantity in the lump. Metals are peculiarly suitable for money because of the ease with which they can be divided into small parts, and because each part retains its full proportionate share of the value of the whole piece, so that all the parts are together worth just as much as the original was. Paper can, of course, be made to carry values of any size, which is another of its advantages peculiarly characteristic of cheques.

(6) *Stable in Its Value.* This most necessary quality of ideal money is the one most difficult of all to secure in

practice. The desirability of the quality has been alluded to previously and will be discussed again.

4. **Metal Currency,** being the oldest and simplest kind of money that we use, claims our attention first.

(1) *Adoption of the Gold Standard.* The sovereign was adopted as the standard coin of this country in 1816. Long ago our unit of value had been the silver pound, consisting of 240 silver pennies. Even now, in our reckonings, we use the names pounds and pence, with the penny still the 240th part of the pound. And, though the pound-weight and the money-pound are not now the same, the 240th part of the pound Troy continues to be called a pennyweight. For 150 years before 1816, the gold coin of England was the guinea. Originally the guinea had been intended to circulate as the equivalent of twenty silver shillings; but the natural ratio of value between the two metals varied from time to time, and for 100 years, until 1816, the guinea had been rated to pass current as twenty-one shillings. By the introduction of the sovereign, the unit of coinage was again brought into correspondence with the unit of account.

(2) *Standard Coins.* The gold coins now in use are the sovereign and the half-sovereign; and the minting of these is carried out by the Government free of charge. This means that if a person were in possession of gold bullion just sufficient to make a certain number of standard coins, and were to take the bullion to the Mint, the metal would be made into the required number of coins and all the coins, when ready, would be handed back to him.[1] By the Coinage Act of 1816 it is required that gold bullion of a given fineness shall be minted into coin at the rate of £46 14s. 6d., or 44½ guineas, to the pound weight Troy. Twenty pounds Troy are, therefore, just sufficient for the coining of 934½ sovereigns. As the pound Troy consists of 5,760 grains, it follows that—

One sovereign $= 5{,}760 \times 20 \div 934{\cdot}5 = 123{\cdot}2745$ grains;

[1] The Gold Standard Act, 1925, now prohibits the coining of gold except for the Bank of England.

and, as the pound Troy contains twelve ounces, it follows also that—

1 oz. of gold = £46 14s. 6d. ÷ 12 = £3 17s. 10½d.

The Bank of England by its Charter is compelled to buy gold bullion at £3 17s. 9d. the ounce; but it gives payment at once, whereas the Mint would take some weeks to deliver the coin. The difference of 1½d. an ounce may, therefore, be viewed as interest on the money for the time required for coining. The Bank, however, does not send bullion to be minted except when an increase in the supply of coins is necessary. Gold in the form of bullion is frequently wanted for export to settle the balance of exchange between this and some other country. The Bank sells it at the Mint price of £3 17s. 10½d., and the Gold Standard Act, 1925, now prevents the Bank from charging any more. Though the course is not imposed by law, coins minted in this country are, as a matter of convenience, always put into circulation through the Bank of England.

The gold used for British coins is 22-carat or eleven-twelfths fine. For every 22 parts of pure gold, 2 parts of copper are added so as to make the coins harder, gold in the pure state being too soft to wear well as money. Because of the difficulty, particularly when balances were less delicate than now, of attaining perfect exactness in the mixing of the metals and in the weight given to each coin, a "remedy" is allowed in fineness of 2 parts in every 1,000; and in weight, of 0·2 grains for the sovereign and 0·15 for the half-sovereign. Up to 1889 the law required that loss due to wear had to be borne by the person that presented a light-weight coin as payment. A sovereign of less than 122·5 grains or a half-sovereign of less than 61·125 was not legal tender. The Bank of England accepted such coins at bullion price only and sent them to be re-minted. The effect of this was that the other banks did not pay light gold into the Bank of England; but picked it out and returned it to circulation to the detriment of the condition of the currency. The

Government, however, now takes upon itself the expense of keeping the coinage in good repair. To encourage the return of coins that are becoming light, the Bank of England is authorized to allow face value for every sovereign or half-sovereign not more than three grains short. A difference of more than three grains is taken as evidence of mutilation, and mutilated coins are valued by weight as bullion.

(3) *Token Coins.* A token coin is one made to represent a fixed part of the value of the standard coin of a country; but is such that the value it represents is higher than the value of the metal it contains. Before the re-coinage of 1816, silver coins were minted to pass like gold coins at the value of the metal they contained, and were legal tender for any amount. Since then they have, in this country, been used as token money only. An ounce Troy of silver makes 5s. 6d. in coins. During recent years the price of an ounce of silver bullion has been, at its highest, about 6s.; at its lowest about 2s. There is, therefore, usually, considerable profit to the Government in the coining of silver; but the quantity coined is strictly limited to what is actually needed by the people for the making of small payments. Worn silver coins are withdrawn at face value for re-minting. Copper is used again as alloy in the coining of silver, three parts of copper being added to thirty-seven of silver, thus making the coins $\frac{37}{40}$th fine.[1]

Bronze coins are made of copper to which small quantities of tin and zinc have been added, and these are also token money. This system in operation in the British Isles is known as ***composite legal tender***, the acceptance of token coins being compulsory for limited sums only. The maximum that cannot be refused in silver is forty shillings; in copper, one shilling; but gold is legal tender up to any amount.

5. **Gresham's Law** is the name given to the formal statement of certain natural causes and effects as they are found to operate in currency systems. The law takes its name

[1] In 1920, with silver over 5s. 6d. an ounce, the coins were reduced in fineness to half pure silver and half alloy.

from Sir Thomas Gresham, merchant and financier in Queen Elizabeth's reign, and founder of the Royal Exchange. It was the too tardy recognition of the working of this law that gave England and other countries much of the trouble they had, and that some of them still have, in maintaining an efficient currency. Stated in its baldest form, the law is that *bad money drives out good.*

(1) Suppose a coinage, debased by the issue of coins of inferior quality; or clipped, "sweated," and deteriorated by wear, as for centuries the English coinage normally was. Then suppose that in a well-meant effort at reform a quantity of good new coins is issued. The new coins would surely be preferred to the old—at least one would expect them to be preferred. And so they would be—but mostly by certain classes of persons, and for certain purposes only; and these not the purposes a coinage is intended to serve. To see how the result would turn out contrary to expectation, let us examine the following cases—

(i) English coins would frequently be sent abroad in payment of foreign debts. In the foreign land they would be received by weight, and not by "tale"; that is, they would be taken at their metallic value, and not at the values stamped upon them. For its own currency purposes the country of origin would value them, light or heavy, clipped or whole, all alike; but in the foreign country more would be given for the good ones than for the poor ones. It would, therefore, naturally be new and heavy coins that were picked out by merchants when money was required for shipment. The worn coins and the clipped ones would circulate just as before; whilst the new ones issued for home use would be appropriated to the service of foreign trade.

(ii) Let us go back again to a time when silver coins had not been reduced to token money, and when the price of silver bullion was, say, 5s. an ounce. Then five one-shilling pieces would also weigh just one ounce, the equivalent of the bullion they would buy. But, with each shilling-piece, light or heavy, passing as of the same value when issued as

money, the price of silver bullion would be five shillings *of average weight.* Now, assume that one shilling out of an average five is badly worn, a second clipped to three-quarters of its proper size, a third coined of metal of inferior fineness and so debased to two-thirds of its proper quality, and only two of the five in good condition. In such case the two good shillings would each be worth more than one-fifth of the ounce of bullion. A silversmith in need of silver to melt down would, in these circumstances, find more metal in five *new* shilling-pieces of full quality than in the ounce of bullion that *any* five shillings, new and old, would purchase. He would save for the melting pot all the new coins that came his way, and the old ones he would pass on again as money.

According to Gresham's Law, if coins of varying weight or quality are circulating together at the same value, the worse coins will cause the better ones to disappear from circulation; but the better coins will never cause the worse to disappear. We found the same evil at work amongst our gold coins in quite recent times, and the Government compelled in 1889 to take upon itself permanently the cost of withdrawing worn coins and minting them over again.

(2) But how does this law apply to a coinage in which gold and silver are made to circulate together at a rate of equivalence fixed by Act of Parliament? It will be perceived that the relative bullion value of the two metals is bound to change from time to time. Gold and silver, like all other commodities, rise and fall in price, and it cannot be expected that both will always change simultaneously and always to the same extent. One or other of the metals will soon rise above the value fixed for it as coin, and will become worth more for other uses. Consequently, it will disappear from the coinage. This was the position in England from 1717 to 1816. During the whole of that century the gold guinea was made to pass as the equivalent of twenty-one silver shillings; but at that rate the silver coins were at that time under-valued. They disappeared to such an extent that, in the re-coinage that followed, the new standard coins were

made of gold only. Gresham's Law had been operative. The gold coins had been over-valued. They had become *worth less* than the silver value fixed for them, and they had driven the under-valued silver coins out of circulation, for these had become *worth more* for purposes other than money. The difficulty, with standard coins of two metals, of keeping them rated at the natural relative values of the two metals, led to the adoption of a single-metal standard. Ever since then, silver has been used only for token money. Being over-valued in that form, it cannot now be driven out by gold; and, to prevent the gold being driven out by silver, restriction is placed on the quantity of silver coins minted, and on the number that can be offered and not refused in any one payment.

6. Paper Currency. Token coins merely *represent* parts of the value of the standard coin, their values as metal being less than those at which the coins pass. For this reason they have been called *representative money*, another form of which is paper money, itself consisting of different kinds.

(1) *Kinds of Paper Money.* In a division by themselves must be placed the currency notes of the Treasury and the notes of the Bank of England. Both of these are legal tender, which means that a creditor cannot refuse them when his debtor offers them in payment of what he owes. The law has made these notes a compulsory form of money. It is, therefore, reasonable to expect the maintenance of their efficiency as money to be quite as much the duty of the State as is the keeping of the coinage in good condition. The law provides that gold may be obtained for both kinds of notes at the Bank of England. But, if many people wished to turn them into gold, they might find it somewhat troublesome to do so, as the Bank of England has only three offices in London, and only eight in other towns. Both kinds of notes are accepted freely, because the Treasury notes are issued by the Government itself, and the Bank's issue is strictly regulated by law. Unless the Bank Act be suspended, the immediate convertibility into gold of the Bank of England

notes is at present more certain than that even of the Government's own issue, for there is a bigger deposit of gold behind the notes of the Bank.

The next division includes cheques and bills of exchange of all kinds. These, of course, have behind them only the more or less questionable stability of the many and various parties to them. Further, every cheque or bill differs from a Bank of England or Treasury note in its being used, as a rule, to make only one or at most a very limited number of payments. A cheque is nearly always presented at once for payment; but a Bank of England or Treasury note circulates from hand to hand indefinitely. In a third division might be placed bank notes that are not legal tender. Such are not issued in England now; but they have been long the common form, in Scotland and Ireland, of payments that in England until recently would have been made in gold. These Scotch and Irish notes circulate freely because they are also regulated by law; and because the banks that issue them are institutions of long standing, well known to the public, and with reputations far more substantial than that of the obscure issuer of the average cheque. The distinction between convertible and inconvertible notes will be dealt with presently.

It may have been hastily concluded that paper currency is merely an appendage to the coinage. So it is historically; but from the quantity of paper now in use it might justifiably be looked upon as by far the most important part of the country's monetary equipment. Had notes and cheques not been brought into use for other reasons it would have been necessary to invent them, or something like them, owing to the insufficiency of precious metals to supply all the money that is needed now. Cheques consist of orders, most of which are paid merely by making transfers of value in bank books, as explained in Chapter X. At the present time, because of the effect of war conditions, paper money looms larger than ever in importance. The gold coins in circulation (*i.e.*, outside the Bank of England) before the war

have been estimated at £123,000,000. Now we rarely see gold money; and the Treasury notes that have taken its place have expanded into an issue of £300,000,000. Before the war the Bank of England notes in active circulation were about £30,000,000. Now they are £90,000,000[1]; and the value of the cheques that pass through the London Bankers' Clearing House in an average week is nearly twice the combined total of Treasury and Bank notes in circulation. That gives a rough idea of the quantity of paper money used by the country as its medium of exchange.

(2) *Credit and Instruments of Credit.* Taken literally, the word "credit" means the same as "trust." The value of a bank note, for example, lies in the right it gives the holder to demand payment in gold from the issuing bank. The realizability of this right rests on the solvency of the bank at the time when payment is required. If, therefore, a bank's notes circulate freely, it must be because the public puts faith, or trust, or credit in the bank's good name. So, when A draws a cheque on the bank B and pays the cheque to C, C takes it because of the trust he places, first, in A's integrity and, secondly, in B's ability to pay. We say that this system, which uses notes and cheques as money, is built on credit, and by that we mean that it is built on the trust or confidence existing amongst the members of the commercial community who pay and receive this paper money. So long as the confidence endures, cheques are taken when the parties are known to one another; notes, in other circumstances; and gold is needed only for bank reserves and for payments to be sent abroad, because the notes of this country do not circulate in other countries and are, therefore, of no use there as currency.

But, in the affairs of the banking world the term "credit" has taken to itself a special meaning. When a bank issues one of its notes, the bank gives the person taking the note a right of claim against the bank; and when the note passes on from hand to hand, this right passes with it. So, when C takes from A the cheque drawn on the bank B, he, too, takes

[1] Excluding those in the Currency Note Reserve.

with it a transferable right of claim against the bank. Again, when Q accepts and returns the three months' draft of P, Q also gives to P, or to P's endorsee, a right to claim on Q in three months' time. Lastly, when the bank consents to allow its customer A to overdraw his account by £500, the bank confers on A a right to claim on the bank up to the sum agreed, the right being, as we have just seen, transferable to C, and through C to others. From its original use of denoting an exercise of trust, the word "credit" has come to signify the *rights or claims* which come into existence with exercise of trust in regard to payments, and which custom has made *transferable* from one person to another. The notes or cheques or acceptances that bear evidence of such rights and of their transfer are called "instruments of credit," or sometimes "credit money"; and the source of many of these instruments of credit, the means that a lending banker puts at the disposal of a borrowing customer, is called "book credit." The same meaning appears in such phrases as "supply of credit," "creation of credit," and "amount of credit in circulation," to be found in the literature of currency and banking.

Now, if A obtains an overdraft from his bank B, and draws a cheque for the amount, that cheque makes an *addition to the currency* of the country. When C, to whom the cheque is given, collects the amount through his own bank, this increase is for the time being extinguished; but C has now the right to draw a cheque or cheques for the amount, and very soon he passes on the right, or part of it, to D. D passes it to E, E to F, and F to others in succession. A's loan, therefore, has been the cause of a continuing addition to the money in use, just the same as it would have been, had the bank advanced the money to A in notes. And the addition will persist until A, with whom it originated, takes an equivalent sum from money in circulation and with it pays back what he borrowed from the bank.

The means that banks supply for the carrying out of such operations gives *elasticity* to the currency, so that the currency

expands when need is felt for more medium of exchange, and contracts when the need has passed. What proportion of the money in existence consists of credit and what of coin may be gauged from the Bank Balance Sheet on page 287, where, against a liability to customers on deposit and current accounts amounting to £348,000,000, the bank holds only £52,000,000 available in coin in its own tills and at the Bank of England. Credits that banks allow to customers come back to the banks as deposits. This does not mean that each credit allowed comes back as a deposit to the bank allowing it; but, if all the banks are taken together, the statement that credits do so come back is true. The greater the credits granted, the greater, therefore, are the deposits received; but there is a limit to the quantity of credit that a bank may safely create. That limit is the point at which the resulting increase in deposits would give depositors the right to demand gold out of all proportion to the coin at the bank's disposal.

To the extent, then, of the paper currency in use, our monetary system is based on the general good faith of the mercantile community. It is an exaggeration to speak of *gold being the basis* of the currency, in the sense that gold can be obtained directly, or indirectly, for any and every note or cheque. That it may be so demanded is the law. Nevertheless, the gold in bank tills and bank vaults is sufficient to serve only as a *partial* security against the possible breakdown of credit. In a crisis, such as followed the declaration of war in 1914, the whole of our store of gold would soon be exhausted in liquidating only a small fraction of the instruments of credit that would be afloat. Gold is the basis of credit in the sense, (1) that credit instruments express in terms of gold the values of the rights they represent; (2) that in circumstances when no credit instrument is acceptable as money, gold is fallen back upon as the medium of exchange. With gold in one's hands, the element of trust, and the dangers, real or imaginary, that it involves, are entirely eliminated. But if the demand for gold exceeds the

available stock, the monetary machine breaks down, and business of the more speculative kinds topples on the brink of ruin.

(3) *Convertible and Inconvertible Paper*. A most important consideration in regard to paper money is this question of whether or not it can be converted into gold. The suspension of the cashing of its notes by the Bank of England, and the many troubles attending note issues in this country before the issues were regulated by the Acts of 1844 and 1845, have already been passed in review. Just as the country had to learn earlier how to manage its coinage, so it had to learn later how to manage the issue of notes. But bankers nowadays are more concerned with the giving out of cheque books than with putting notes into circulation. The extent to which cheques may be drawn on banks is not regulated by Act of Parliament, nor can it well be so. Bankers, therefore, must act as their own monitors in this respect, and must see that they keep themselves supplied with sufficient liquid assets to meet any exceptional exercise of the power to demand payment in legal tender, which the possession of cheque books gives to their customers. Or, to state the case from another point of view, a banker must not create too much credit by the granting of advances, and in that way himself put it within the power of the borrowers to make claims upon him beyond what his liquid assets will be capable of meeting.

Interest in convertibility attaches for us, first of all, to the £1 and 10s. notes issued by the Treasury through the Bank of England. The Currency and Bank Notes Act of 1914 made these payable at face value in gold on demand; but, until we restored the gold standard in 1925, gold so obtained could not be exported, and it could not be melted down. For practical purposes, therefore, the issue was inconvertible. Its rapid expansion soon brought about the evils of high prices and unfavourable foreign exchanges rates. In the Appendix is reproduced an interesting report made by the Committee on Currency and Foreign Exchanges towards the close of

1918. Paragraph 42 of the report recommended that the maximum uncovered issue of one year should be made the legal maximum of the next year. By adopting that policy the Treasury has reduced the issue slightly; and it has kept within the limit by occasionally adding Bank of England notes to the cover, as advised in paragraph 43. Notes of the Bank have also been substituted for the gold portion of the reserve in accordance with paragraph 44. A statement of the current position can be seen in the daily press every Friday morning. For provisions of the Gold Standard Act, 1925, affecting Treasury notes, *see* p. 320.

The general question may, however, be raised of what the objection really is to inconvertibility in a note issue. If the notes have the force of law behind them, and if they buy as much as gold money of the same amount would buy, a preference for gold would seem to be mere prejudice or sentiment. So it would be—if the conditions stipulated were always fulfilled. But they are not. The danger of an inconvertible issue of notes lies in the difficulty of withdrawing from circulation any excess beyond what the community needs at any time. Inconvertible notes are wanting in the quality of elasticity. Credit given by banks, or notes issued by them as advances, would be automatically cancelled when the customers accommodated could repay, and so save the interest charged. But an excess of inconvertible paper cannot be so cancelled, because the Government that issued it will not take it back. In so far as inconvertible paper is issued in excess of the amount of the gold it has displaced, the currency will be depreciated; that is, the purchasing power of money will become less than it was before, because there is now more of it. As explained in Section 7 below, *prices will rise.* Gold will be worth more for export, or for use in the arts, than it is worth as money in circulation at home; and it will disappear from the currency. For these other purposes, *gold will sell at a premium* on the "Mint price," unless such sales are checked. Prices will no longer be *gold* prices. In other words gold will have ceased to be

the measure and standard of value where the inconvertible paper is in use.

Each increase in the quantity of paper money afloat encourages home buying, decreases exports, raises prices, and causes more goods than usual to come in from abroad. But notes are of no use to send abroad in payment of these extra imports, because no country's notes will circulate outside its own borders, where its laws have no force. It follows that ***gold will be drawn away*** in payment of the surplus of imports, if the metal can be obtained; and in any case it will tend to be used only as the medium for settling foreign balances, whilst the home currency will be left with nothing but depreciated paper. This will be a third case of the operation of Gresham's Law. The less acceptable part of the currency, namely, the inconvertible paper issued in excess, will be driving the more acceptable gold part out of circulation.

Inconvertible notes, where they exist, have very often been convertible when first issued and have only become inconvertible when, under stress of adverse circumstances, their gold backing has been lost or used up for other purposes. Then the same adverse circumstances that brought about inconvertibility produce the temptation to increase the issue at no more cost than the working of the printing-press, with a result that the state of such a currency goes from bad to worse, and the ***standard of value loses all stability***. Most countries have had experience of the evils of inconvertible paper. Before the war, South American States were notorious for depreciated notes. Of the European belligerents of 1918 Britain has come through best in this respect. France, Belgium, and Italy have been heavily hit by depreciation of the franc and lira. The old currencies of Russia, Austria, and Germany became all but worthless, and had to be reorganized [1]

7. Changes in the Value of Money. (1) *How Money is Valued*. This chapter began by explaining how and why

[1] At the end of 1923 £1 would buy 20 billion paper marks.

the values of other commodities are all expressed in terms of the single commodity, gold. Now, if the value of a ton of coal is a certain quantity of gold, it must follow that the value of that quantity of gold can be expressed as 1 ton of coal. Suppose the price of a ton of coal is £1 19s., then the value of an ounce of gold, which makes just £3 17s. 10½d. in coin, will be, as near as need be, 2 tons of coal. Should the value of a man's felt hat be 9s. 9d., then the value of an ounce of gold would be expressible again as approximately eight of these felt hats; and similarly for other kinds of goods. If it happens that more goods than formerly can be obtained for a given quantity of gold, then the value of the gold must have risen; if fewer, it must have fallen. Thus we reach the conclusion that gold rises in value as the prices of other commodities fall; and falls in value as prices in general rise. The value of gold changes with its purchasing power.

(2) *Scarcity and Abundance of Commodities.* If potatoes rise in price, the cause will probably be that the crop has been poor, with the result that the commodity is scarce. Potatoes are so useful and desirable, that the average person will give considerably more money than before rather than go without them at dinner time. He will do this even if he has no more money to spend than he previously had. Each person will want more than his small share of the limited supply, and competition amongst buyers will force the price up. On the other hand, if owing to a plentiful harvest the supply is abundant, then each seller will try to sell the whole of his stock. When he finds the demand slackening off, he will undercut other sellers in his eagerness to dispose of the surplus in his possession. Consumers will then be able to get their usual supplies for less money than before. Thus, the value of money will rise with an increase in the supply of other goods, and will fall when the goods decrease.

(3) *Scarcity and Abundance of Money.* What holds good about the relation of supply to exchange value in regard to potatoes or coal, beef or timber, or any commodity, must hold good also in regard to the commodity gold. If gold

became much more plentiful whilst other commodities were in normal supply, the gold would fall in value. It would become depreciated, and more of it would have to be paid for the same quantity of goods as previously. If, on the contrary, gold became scarce, a smaller payment would command the same quantity of goods as before, and the value of gold, and therefore of money, would rise. The value of money, or its purchasing power, rises with a decrease in its supply, and falls as the supply increases.

It has been shown, however, that for the purposes of money, it is not gold metal that matters most. By far the largest part of our currency consists of paper instruments of credit. Therefore, any expansion in the credit portion of the currency would have the same effect as an increase of the gold in circulation; and contraction of credit, the same effect as a decrease in gold. If, then, the currency is increased by an expansion of credit, the supply of goods and labour remaining as before, money will fall in value whilst goods and wages rise. If the currency is decreased by a contraction of credit, the value of money will tend to rise, and goods and wages fall.

(4) *Index-numbers of Prices*. For simplicity of illustration, we have taken a single influence at work at one time; but in actuality there may be several tendencies all operative at once. The result will then be the combined effects of their interaction. As some goods may rise in price whilst others are falling, it is usual in estimating changes in the value of money to take the prices of a *number* of representative commodities for a selected period. To these prices, or to their total or their average, is assigned the index-number 100; and the index-numbers for future periods are obtained by adding or deducting the percentages that represent such increases or decreases in price as are found to have taken place. The following are the index-numbers compiled by *The Statist* for the wholesale prices of forty-five commodities on the basis of Sauerbeck's figures, the prices for the eleven years (1867–77) being taken as 100.

I.—ANNUAL INDEX NUMBERS.

	Index No.		Index No.		Index No.
Jevons's adjusted figures for 1810	171	Year 1911	80	Year 1919	206
Sauerbeck's figures for 1867–1877	100	,, 1912	85	,, 1920	251
Year 1880	88	,, 1913	85	,, 1921	155
Years 1881–1890	75	,, 1914	85	,, 1922	131
,, 1891–1900	66	,, 1915	108	,, 1923	129
,, 1901–1910	73	,, 1916	136	,, 1924	140
		,, 1917	175		
		,, 1918	192		

II.—COMPARISON OF WAR AND POST-WAR. ANNUAL INDEX NUMBERS

	1914.	1916.	1918.	1920.	1921.	1923.	1924.
Vegetable Foods (8)	75	133	171	227	143	98	122
Animal Food (7)	100	152	207	263	213	162	156
Sugar, Coffee, Tea (4)	58	86	138	193	83	101	104
Food-stuffs (19)	81	130	177	234	158	122	131
Minerals (7)	99	158	187	295	181	155	162
Textiles (8)	81	129	222	262	140	140	170
Sundries (11)	87	136	202	244	145	117	119
Materials (26)	88	140	204	264	153	134	147
Total (45)	85	136	192	251	155	129	140

(5) *The Efficiency of Money Affects Its Value.* A further point to be noticed regarding the value of money is its rapidity of circulation. When the sewing machine is so improved that it works at high speed, one machine turns out more stitching than before. Fewer machines are needed to obtain the same output; or the same number of machines are capable of bigger output. When, by improvement of commercial organization—of banking methods in the making and collecting of payments, of postal and telegraphic services, of transport communications—money can be made to move more quickly than before from hand to hand or place to place; then, a less quantity will be needed for the same volume

of trade, or the same quantity will suffice for increased commerce. Money will, like the sewing machine, have become more efficient. The value of money depends, then, not simply on the quantity in use; but *on the quantity and the rapidity* with which, on the average, it circulates. When business is brisk it moves more quickly than in times of slackness.

(6) *Instability of Money Value.* Enough has been written to make it plain that money in the forms we know is not a stable measure of value. The quantity of gold itself in existence does not alter very quickly. So indestructible is gold, that a large accumulation has been handed down from past times—so large an accumulation that increase of the stock by mining operations does not make an appreciable difference in a short period. That is one of the reasons why gold has been selected to serve as money. But, on the foundation of a small currency originally composed of metal entirely, there has been erected a huge superstructure of credit, and the whole is now used as the medium of exchange. Rapid expansion and contraction of this superstructure of credit, except when these movements happen to coincide exactly with expansion and contraction of trade, cause the value of money to change quickly and continuously.

Still, changes in the supply of precious metal also tell in the long run. Such changes gave rise to the movement for establishing in different countries a double or bimetallic standard consisting of gold and silver. The theory is that if both metals were coined freely, and used side by side, both being legal tender for any amount, they would give a more stable standard than one or other metal by itself. Attempts to apply the theory in France and in the United States have not, however, been successful. European nations have gravitated more and more towards the single gold standard, and have left the older standard of silver to the older civilizations of the East, or to countries where silver is largely produced.

CHAPTER XXI

THE MONEY MARKET

1. **What is the Money Market?** In answer to this question, the first point to be mentioned is that here the word "money" does not mean money itself in any of its forms. "Loan Market" would be a term much more exact. What is bought and sold in the Money Market is only the *loan* or the *use* of money or of credit; and the phrase "price of money" means the charge made for the use of it for a time, that is, the rate of interest at which loans are arranged. The Money Market puts down certain sums now to be used, and to be returned on future dates together with payment for their use. When the charge for use, that is, the interest, is high, money is said to be *dear*; when low, money is *cheap*. In the Money Market sense, "value of money" has no reference whatever to a rise or fall of the value of money in the economic sense discussed in Chapter XX—that is, to a change in its purchasing power.

The Money Market is in the city of London; but, unlike many other markets such as the Stock Exchange, the Wool Exchange, or Covent Garden, it occupies no single building of its own. Lombard Street has been used as a name for the Money Market as a whole, because it is representative of the habitations of the members of the Market; but the confines of the Money Market would be more correctly described as co-extensive with the haunts of all whose dealings enter into the Market's business. Included in these are the head offices in the City of the English banks, the London offices or agencies of provincial and foreign banks, the establishments of the bill brokers and discount houses, and, last though not least, the Bank of England. The money to be loaned in this market is: (1) the surpluses in the hands of the English banks in London or sent up to

them from the country—money that they have not been able to use in advances or discounts to manufacturers and traders; (2) similar surpluses of the Bank of England; and (3) money accumulated with the Colonial and foreign banks in London, or sent to them from their offices abroad to be put out at interest here. London is not only the centre to which all surplus loanable capital of this country finds its way; but is also to a great extent such a centre for the world at large. Deposit banking developed here first and so made funds available for lending here more than anywhere else. Besides, when England became the richest country in the world, London got the start. Loanable money is always to be had here, the price depending, as with other purchasable things, on the relation of supply to demand.

2. **How the Banks Lay Out Their Funds.** The way in which a banker disposes of the money entrusted to him is shown on page 287, in the abridged balance sheet of what is at present the largest English bank. It will be noticed that in this instance something over one-quarter of the assets is in most liquid form; namely, cash in hand, balances at the Bank of England, and money at call and short notice. This is what the bank keeps immediately available should exceptional demands arise at any time for the cashing of customers' cheques over the bank's counters. Something under one-quarter is laid out in bills discounted and in sound investments. Good bills for short terms are an ideal asset for a banker. The money put into them is not locked up for long periods, nor in large amounts, as the bills are numerous and are continually maturing. Besides, in case of dishonour the banker has a right of recourse against the drawer or any of the endorsers of each bill; and the bills discounted by English banks are almost entirely bills accepted and payable in this country. The investments taken up are such as always command a market in any but most exceptional circumstances. Roughly, one-third again of the bank's funds is advanced to customers, and is the portion of the bank's assets that could be least quickly realized. It should be

pointed out, however, that these proportions may vary with different circumstances, and with different banks. Banks publish their balance sheets in order to make their solvency known, and so inspire that confidence in their stability which is essential to the maintenance of their business.

MIDLAND BANK, LIMITED.

Balance Sheet (abridged) at 30th June, 1925.

Liabilities.	£	*Assets.*	
Capital paid up .	11,976,890	Cash in hand and cash at Bank of England . .	51,563,186
Reserve Fund . .	11,976,890	Cheques in transit .	17,760,013
Current, Deposit, and other Accounts .	348,359,435	Money at call and at short notice . .	16,101,354
Acceptances on account of Customers . . .	29,482,109	Investments . .	35,647,576
		Bills of Exchange .	41,043,679
			162,115,808
		Advances to Customers . . .	198,027,999
		Liabilities of Customers for acceptances	29,482,109
		Bank Premises .	5,930,632
		Belfast Bank Shares, etc., etc. . .	8,238,776
	401,795,324		401,795,324

The most readily available part of the banker's assets consists of those that bring him in little or no return. His cash in hand brings in nothing. Neither does his balance at the Bank of England. The money at call or short notice earns a low rate of interest; and the next least remunerative asset is the bills he discounts in bulk for bill brokers. As these are the least profitable parts of his funds, they are the last to be invested. They make up the surplus already referred to which, as it cannot be employed to greater benefit compatible with the security of the bank, is laid out in part for short terms in the Money Market.

3. The Bank of England and the Money Market. At first thought, it seems strange that the other banks are content to keep large balances without interest at the Bank of England. One object in their doing so is, as explained in Chapter X, to facilitate settlement of the differences arising daily out of Clearing House operations. More vital considerations are: (1) that, in emergencies, balances at the Bank of England can be turned on demand into notes or gold, and are therefore looked upon by the banks as the equivalent of gold in hand; (2) that the practice of keeping large balances there gives the other banks some claim on the Bank of England, and through the Bank of England on the Government, in times of distress. It makes the Bank of England interested in the stability of the other banks whose funds it uses; and the Bank of England is so closely connected with the Government, that in a crisis the Government is compelled, by its own financial interests, to take action for the preservation of the banking system of the country as a whole. These balances of the other banks go to make up the surplus of funds that the Bank itself is free to use in the Money Market. The Bank of England became the "bankers' bank" when, in the early days, the volume of its business gave it a predominant place. Several of the joint-stock banks have now grown to be its rivals in size, and its power to control the Money Market is consequently on the wane. Yet, it maintains its position as the nucleus of the banking system for the reason just stated, and because of its prestige as Government banker, of its being the issuer of the only legal tender bank notes in England, and of its acting as intermediary between the other banks and the Treasury for the issue of currency notes, and the Mint for coin. Moreover, the amount of loanable money it commands is so large as to give it the means of affecting the Money Market very appreciably when it has occasion to exert its power.

4. Other Members of the Money Market. Besides the Bank of England and the other banks, the Money Market embraces (1) bill brokers; (2) foreign and Colonial banks; (3) brokers or

jobbers on the Stock Exchange. *Bill brokers and bill discounters* carry on the business of discounting bills for merchants and others. Those to whom the name of "broker" is correctly applied procure the bills on commission for the banks. The others work on their own account; and the money they use is obtained in one of two ways—(*a*) by re-discounting the bills in parcels with the banks at slightly lower rates than they have themselves charged their customers; (*b*) by borrowing money from the banks or elsewhere at call or short notice, and at a low rate of interest. It has been shown that the banks usually have surplus funds seeking employment. Rather than let these funds lie idle, the banks lend them in this way, and they can afford to put the money out for very little return at times, because much of their customers' balances lies in the hands of the banks free from interest. These dealers in bills can carry on this discounting business more efficiently than the banks, because bank managers have many matters claiming their attention; whilst this is the only business of the bill brokers, and they lay themselves out to acquire the special knowledge and experience needed to conduct it. Also, on the side of the banks, it is found more convenient to receive the bills in large assorted batches. The smaller brokers frequently work from hand to mouth; but the bigger discount houses, which include several joint-stock companies, have capital at their disposal, and they take money on deposit from outsiders.

Stockbrokers come into the Money Market for loans with which to pay for stocks they have bought. These stocks their clients desire to have carried over the next settlement, because they have bought them in expectation of a rise in price, and they are waiting for the rise to take place before they sell again. The loans are made on the security of the stock and share certificates deposited with the banks, the latter always keeping in hand a margin of about 10 per cent. against possible falls in price. Very much of the business of the Stock Exchange is of this speculative nature, and very large sums are often outstanding, advanced for this purpose

by the banks out of their surplus cash. The money is always repayable on the next settling day, which is in a fortnight's time.

The Foreign and Colonial Banks, like their English compeers, use the London Money Market, when its rates pay them to do so, for putting out surplus funds at interest and for buying bills under discount; or they use it for selling bills on London that are remitted to them from foreign centres.

5. **Rates of Discount and Interest.** The most important rate is the Bank of England published minimum rate for discounting bills. Its importance, however, is not derived from the amount of business now transacted at that rate. The *market rate*, that is, the rate charged by the brokers and by the banks to their customers, is lower than the bank rate. For this reason, and to keep hold of its business, the Bank has for a long time discounted bills for its regular customers at the market rate. It charges bank rate only to bill brokers and others who come to it occasionally for the accommodation they cannot get elsewhere. When "money is scarce," the banks call in their short loans from the brokers, who, in order to find the means of repayment, are forced to borrow from the Bank of England at the official rate. The following table of rates is taken from the daily Press—

MARKET DISCOUNTS.	*Per cent.*	
60-day Bank Bills .	$3\frac{7}{16}$	$3\frac{1}{2}$
3 months' ,, .	$3\frac{1}{2}$	
6 ,, ,, .	$3\frac{1}{2}$	
3 ,, ,, .	$3\frac{1}{2}$	$3\frac{9}{16}$
4 ,, Trade Bills	4	$4\frac{1}{2}$
6 ,, ,, .	$4\frac{1}{4}$	$4\frac{1}{2}$
4 ,, ,, .	$4\frac{1}{2}$	$4\frac{3}{4}$

BANK AND MONEY RATES.	*Per cent.*	
Bank Rate . . .	5	
Bank of England Loans	4	
Brokers' Deposit Call	3	
Bankers' Deposit Rate	3	
Brokers' Notice . .	3	
Day-to-day Money .	$2\frac{3}{4}$	$3\frac{1}{4}$
7-day Market Loans .	$3\frac{1}{4}$	

The bills discounted in the London Money Market are bills payable in this country that have been drawn abroad, sold by the drawers, and sent over here to be accepted, discounted, and collected. Two British signatures—the acceptor's and

another—are required by the Bank of England on the bills it discounts. Prices for discounting bills are quoted in the form of percentages to be deducted from the amounts of the bills. In the language of the *Money Article*, rates of discount are said to be "firm" or to "harden" when they rise, and so cause the present worth of bills to be less. The rates are "weak" or "easy" when they fall, and the money given in exchange for the bills is consequently more. *Bank bills* are those on which the name of a bank appears. Because such bills can be discounted at slightly lower rates than *trade bills*, many merchants arrange with their bankers to accept bills for them, and then the merchants instruct their creditors to draw upon the banks instead of drawing on the merchants themselves. The banks, of course, hold their customers liable for payment of the acceptances when they mature. Items of "acceptances on behalf of customers" appear in the balance sheets of all the banks. A few old-established firms in London specializing in this business are known as "accepting houses."

The importance of bank rate nowadays is that when it rises, the market rate usually—but not always—rises with it; also, that it is the minimum discount rate outside of London; and that it is still the governing factor in the fixing of the rate that the other banks and the discount houses offer for deposits. *Deposit rate* is usually 2 per cent. below bank rate, and a change in this affects again the rates which the banks charge for overdrafts and for advances, as well as that which they allow on current accounts in the provinces.

Profits in the Money Market are made on small margins, so that even a slight rise may mean a loss to the bill brokers when they come to re-discount with the bank's bills they had themselves discounted for their customers before the rise took place. The market works largely on loans, delicately balancing borrowings against discounts, and rate against rate. This fine adjustment of the machinery of the Money Market necessitates its very careful handling when any disturbing omen appears in the financial or political outlook.

6. **The Bank of England Reserve.** In ordinary circumstances, the banks keep in hand just sufficient " till money " to cover day to day requirements. Their reserves of cash are paid into the Bank of England, and when they find that they need more cash, they draw what they need from the Bank. The Bank of England, therefore, has to keep, not only its own reserve of cash, but the reserves of all the other banks as well. Now, the Bank of England is obliged to cash its notes in gold whenever it is asked to do so; and this obligation lays it open to demands for gold for export and other purposes. The usual procedure for obtaining gold in quantities is first to procure notes from the Banking Department, either direct or through another bank, and then to cash the notes in the Issue Department. This operation reduces the drawer's balance, or that of his banker, at the Bank of England; but, as it also reduces the notes in the Banking Department by the *same* amount, it follows that, relatively to the Bank's liabilities, its cash reserve will then be *less* than it was before. A reserve, for example, of 30 millions would be 50 per cent. of liabilities amounting to 60 millions; but if the liabilities and the reserve were both reduced by 6 millions, the percentage would fall from 50 to 44½. A heavy drop in the reserve is not a matter that concerns the Bank of England alone, for the Bank's reserve, it must be remembered, includes the cash reserve of all the other English banks. As soon, therefore, as demands on the Bank's cash look like leaving the reserve dangerously low, particularly if the drain is one of gold for export, the Bank raises its official rate above the level of the Continental discount rates. The other banks and the bill brokers usually follow this lead and raise their rates too. The result is that money is attracted to London, because it can then be used there more profitably than elsewhere. There will be an increase abroad in the demand for bills payable in London; and as such bills are bought up and the exchanges rise (*see* Chapter XXII), remittances will arrive in gold. The gold will find its way to the Bank of England, and the reserve will be replenished.

If it be asked, "Does the raising of the bank rate always attain this end?" the answer is, "No, not always." Whether the scheme works successfully, or not, depends on the quantity of money floating on the Market. The Market rate of discount will rise with the bank rate if competition is not keen enough to keep it down. The competitors for discount business are, as we have seen, the English banks, the bill brokers, and the foreign banks; but owing to their size and power, the influence of the English banks is paramount. If the competitors have a good supply of money at their disposal, they will continue to bid against each other for the bills that are on offer, and the rise in bank rate will have little effect. In such circumstances the Bank of England makes a further move. It itself borrows the excess of floating money. One way of doing this is for the Bank to sell Government stock for cash; and then to buy it back "for the account," that is, to be paid for on the next Stock Exchange settling day. The difference between the buying and selling prices is sufficient inducement to draw money temporarily off the market, and to make the increase in bank rate effective for bringing gold from abroad.

When mention is made of the "Bank Reserve," it must be clearly understood that the term is applied to the notes and coin lying in the Banking Department. This cash reserve of the Banking Department must be distinguished from the Rest or reserve fund of the Bank, on the one hand; and, on the other, from the stock of gold coin and bullion held by the Issue Department, and sometimes referred to as the "gold reserve." It has long been recognized that the Bank of England's reserve is insufficient to serve as base for the mass of credit heaped upon it by all the banks; but no satisfactory reform of the system has yet been instituted. In 1847, three years only after the Act of 1844 was passed, in 1857, and again in 1866, there were financial crises. These caused such demand on the Bank for notes and gold, that the Act had to be suspended to prevent the reserve being exhausted and the Bank from closing its doors. In times of alarm, people

are uneasy about their money. As they want to see it in gold or legal tender notes, more currency of that kind is needed then than in ordinary times. All the banks seek to lay in a larger stock of legal tender money in order to meet the increased demands of their customers for it; and this movement, if carried to any length, soon wipes out the reserve of the Bank of England. On application to the Chancellor of the Exchequer, permission is granted to issue extra notes against securities, instead of against gold as the Bank Act requires. The want of the gold behind this extra issue does not trouble the public or the banks. They are content to take the notes on the credit merely of the Bank and of the Government; and the expansion in the issue instantly causes the tension to relax. Parliament is afterwards asked to give an indemnity for the irregular proceeding.

7. **The Money Market and the War.** On the 1st of August, 1914, after bank rate had been raised to 10 per cent., the same thing occurred again for the fourth time. On this occasion the war on the Continent was the cause, leading to a drawing in of credit and a consequent demand for more notes and gold for the circulation and for bankers' till money. The recurring necessity of suspending the Act of 1844 has given force to an agitation for its amendment. An arrangement is desired whereby, in emergencies and under security against abuse of the arrangement, the note issue of the Bank may expand freely to the extent of the demands upon it. So great was the stringency in August, 1914, that the Government itself stepped in with relief. To meet the need for extra legal-tender currency of smaller denomination than the notes of the Bank of England, Treasury notes for £1 and 10s. were issued, and Bank Holiday was extended for three days whilst the new notes were being printed.

The declaration of war by Austria on 24th July and, following that, the calling in of money due by other countries to England, caused such a demand abroad for bills payable in London, that the machinery of the exchanges broke down.

This stopped the transmission of funds that bankers and accepting houses were expecting and were depending upon for the meeting of coming engagements. The declaration of war also caused such a flood of sales on the Stock Exchange by German and other holders, that prices fell phenomenally. One result of this fall was that the securities given by stockbrokers for borrowings from the banks became insufficient to cover the loans, and had to be supplemented. But the fall was so general and continuous, that the borrowers were unable to make up the whole of the additional security required. To prevent the development of a worse situation, the Stock Exchange decided to close. Continental bourses were already shut, and New York followed immediately on London.

Bills that might not be met for want of funds, and securities that could not be sold because prices were too low and the Stock Exchange was closed, were of no use to bankers whose liquid assets had to be increased. Bankers, bill discounters, stockbrokers—all the members of the Money Market—were directly involved, and through them the commercial community at large. To avert collapse all round, the Government had further to declare a *general moratorium*, that is, legal postponement of the payment of debts of all kinds. The Government also provided for the lending by the Bank of England, at the risk of the Government and at 2 per cent. above bank rate, of the wherewithal to pay bills that the acceptors were themselves unable to meet; and for advances to be made, on similar terms, of 60 per cent. in each case of loans outstanding on unredeemed Stock Exchange securities. Part of the interest charged went to an insurance fund against Government loss. In this way, the country was saved from a financial catastrophe on the top of the political one, and at a cost which has been inconsiderable in view of the evils averted

As month by month the four trying years of war wore on, it became apparent that the country was suffering from the consequences of a growing expansion of credit and currency.

The increase of floating credit arose, in the manner described in Chapter XX, Section 6 (2), from the fact that a large part of the Government loans was made to it by the banks. As explained in the Appendix, loans made by the banks created new credit; whereas subscriptions to the same loans by the public merely effected transfers of credit already in existence. This new credit, being paid away by the Government to suppliers of war materials, quickly found its way back to the banks as balances on current accounts, to be drawn upon by cheques and so launched definitely into circulation. Abundance of money, and scarcity of labour and material, meant high prices and high wages, as according to Chapter XX, Section 7, they naturally would. These in turn led to demands for more currency, and the issue of Treasury notes was increased week by week to meet this need. Then, on the strength of growing deposits, the banks invested in further loans; and the resulting increases in the currency led to still higher prices, and these to higher wages again.

In the Money Market the Treasury offered continuously quantities of Treasury bills at fixed discounts, with the result that the prices of these issues controlled the discount and interest rates. Gold was early withdrawn from circulation and shipped abroad to settle adverse balances with neutral countries from which we endeavoured to supply our unprecedented need for goods. It was made illegal to melt down gold coin, or to buy it above face value ; and, all imports of gold being reserved for the Bank of England, there was no outside sale of bullion, and no market price for gold. Loans were raised in the United States, and American securities held here were collected in great numbers and sold back to the States. The proceeds were used to pay for materials, or to buy in New York bills payable here, and so help up the exchange. In 1925 we returned to the gold standard as explained on page 320.

8. The Bank Return Again. The Return below reflects the effects of war conditions, and its comparison with the Return on page 255 brings out the differences.

BANK OF ENGLAND WEEKLY RETURN,

12th February, 1919.

ISSUE DEPARTMENT.

	£		
Notes Issued . .	99,020,795	Government Debt .	11,015,100
		Other Securities .	7,434,900
		Gold Coin and Bullion	80,570,795
	99,020,795		99,020,795

BANKING DEPARTMENT.

	£		£
Proprietors' Capital .	14,553,000	Government Securities	52,679,744
Rest	3,444,196	Other Securities .	83,297,994
Public Deposits .	28,158,294	Notes . . .	29,187,960
Other Deposits .	120,045,536	Gold and Silver Coin	1,048,322
7-Day and Other Bills	12,994		
	166,214,020		166,214,020

The notes in circulation have risen from £29,315,255 to £69,832,835. The Reserve (notes and coin in the Banking Department) is £30,236,282 against £29,189,399, the decrease in its ratio to liabilities being from 52 to 20 per cent. The increase in Government Securities is due to war advances made by the Bank to the Government. The increases in Other Deposits (which are mainly bankers' balances), and in the note circulation arise, as explained on the preceding page, out of credit, created for the Government by the banks, and paid away for war materials and services. The student may compare these two returns with the current one he can find in the newspaper any Friday morning, remembering (p. 279) that, in addition to the reserve in the banking department, a large part of the notes issued is now held as cover against Treasury notes in circulation.

In ordinary years the Bank Return shows a continuous rise in Public Deposits from January to March, due to the collection of the taxes. A fall in the same item occurs when the interest is paid by the Bank on Government stocks; for

example, at the end of each quarter for Consols, on 1st June and 1st December for War Loan, on 1st April and 1st October for National War Bonds. The money paid out, however, soon reappears as an increase in the Other Deposits. Such movements as these are regular and expected; but the Market is more interested in those which are irregular, and perhaps unexpected. Of the latter, a tendency to decline in the percentage of the reserve to the Bank's liabilities would foreshadow a raising of the bank rate with the view of protecting the reserve. As the Other Deposits furnish a rough gauge of the amount of disposable funds on the Market, a contraction in this item spells scarcity of money. When an expansion in Other Deposits is accompanied by an increase in Other Securities, it suggests that the banks are calling in funds to add to their Bank of England balances, and are forcing the bill brokers to discount with or borrow from the Bank. This movement would be the forerunner of a rise in the market rate of discount. Occurring regularly at the end of each half-year, it signifies only a temporary recall of money, said to be due to "window dressing" on the part of some of the banks and other financial institutions, which means that the money is called in for the purpose of making a good showing of cash in their published balance sheets. If this movement appears at other times, it indicates a sensing of impending danger to be estimated by the measure of the movement.

A drain on the Bank's reserve may be occasioned by home or by foreign demands. If it occurs at regular periods, as for the getting in and buying of crops at harvest time, or just for extra cash to be spent during the holiday season, it is not important. In these cases, the money withdrawn will soon return. But a drain for exceptional purposes at home, or for gold for export, has to be watched more closely, because the replenishing of the reserve is then more difficult and more uncertain. Such a drain, if continued, would lead immediately to the raising of the Bank of England's official discount rate.

CHAPTER XXII

FOREIGN EXCHANGE

1. **Home and Foreign Payments.** If a debtor and his creditor live in the same place, payment of the debt may be made in notes or coin at no greater cost than the wear and tear of shoe leather. When the parties are in distant towns, the cost of making the payment might materialize as a small commission charged by the Post Office for a money order. More likely a bank cheque would be sent, and the banker on whom it was drawn would either charge the drawer a small commission for paying it, or would pay all the drawer's cheques without charge in return for the use of his customer's balance free of interest. If it were a South African or Australian debtor that wanted to send £500 to this country, he would ask his Colonial banker for a draft of that amount on London, and would be charged a few shillings extra when he paid for it. In Cape Town or Sydney the money would be taken as pounds. In London it would be paid out as pounds again; and such a transaction would present to the remitter no greater difficulty than does the sending of a money order from Manchester to Birmingham. The point to be noted, however, is that money in a distant town or country is not of the same value to a creditor as money at his own home; and that the difference in value may be taken, for the present, as the cost of transmission from the one place to the other.

If, now, a Liverpool merchant owed 1,500 dollars in New York, the question would arise of how many pounds he must hand over in the Mersey City for 1,500 dollars to be paid out to his creditors on the other side of the "herring pond." Were an exporter sending goods to Switzerland, the question would again arise, of how many francs he could claim in Geneva or in Zurich as the equivalent of £250 here; or else, how many pounds he would be entitled to draw here in

settlement of a claim for, say, 6,300 francs out there. The cost of remittance would have to be allowed for as before; but, first of all, the difficulty would have to be overcome of converting the amount expressed in terms of the one country's money into the terms of the money of the other. "Foreign Exchange" refers to the operation of making payments between this and other countries. It includes the conversion of British pounds into foreign units or foreign units into British pounds, and it allows, in the process of conversion, for the cost of making the remittance; or, at least, for the profit taken by the dealer in exchange, when he buys or sells bills on a foreign land payable in foreign money, and gives or takes for them money of his own country.

2. Mint Par of Exchange. Britain and other leading nations base their money on gold; but (1) the British unit of value differs from those of the others, and (2) it refers usually to a coinage of different fineness. France, for example, coins gold that is $\frac{9}{10}$ths fine, and makes 1 kilogramme of this metal into 155 napoleons of 20 francs each. Comparing this with the content of the sovereign as given in Chapter XX, we get—

1,000 grammes of gold $\frac{9}{10}$ths fine = 3,100 francs
480 Troy ounces of gold $\frac{11}{12}$ths fine = 1,869 sovereigns
whilst 1 ounce Troy = 31·1035 grammes

It follows that—

(*a*) 1 franc = $(1000 \times \frac{9}{10} \div 3100)$ grammes of pure gold
(*b*) 1 sovereign = $(480 \times \frac{11}{12} \times 31{\cdot}1035 \div 1869)$ grammes of pure gold

Dividing (*b*) by (*a*), we find that the number of francs equivalent to one sovereign is—

$$\frac{480 \times 11 \times 31{\cdot}1035 \times 10 \times 3100}{1000 \times 9 \times 12 \times 1869} = 25{\cdot}2215 \text{ francs}$$

Or, following the method called "chain rule," which is usually employed in this type of calculation, the work is set out thus—

How many francs = 1 sovereign
if sovereigns 1,869 = 480 oz. Troy British standard
if British standard oz. 12 = 11 oz. pure gold
if ounce 1 = 31·1035 grammes
if pure grammes 9 = 10 grammes French standard
if French standard grammes 1,000 = 3,100 francs ?

It will be noticed that, in this form of stating the problem, (1) the first term of each equation is made to refer to the same subject-matter as the second term of the equation immediately preceding; whilst (2) the first term of all and the last both refer to the subject-matter of the answer; also (3) if the product of the numbers in the second terms is taken as numerator, and the product of those in the first terms as denominator, the result is exactly the same fraction as emerged in the previous method. This ratio of 25·2215 francs to one sovereign is called the *mint par of exchange*, and means that the weight of fine gold contained in one sovereign is exactly the same as that contained in 25·2215 francs. The pars of exchange with other gold-using countries are arrived at by similar process.

3. Foreign Currencies. A table of the currencies of a few of the countries with which mint pars exist is shown below. The currencies of some other countries will be noticed later.

Country.	*Unit and its division.*	*Mint Par of Exchange.*	*Remarks.*
France, Switzerland, and Belgium	franc = 100 centimes	25·2215 francs	
Italy	lira = 100 centesimi	25·2215 lire	
Spain	peseta = 100 centimos	25·2215 pesetas	peso = 5 pesetas
United States and Canada	dollar = 100 cents	4·866 dollars	
Germany	mark = 100 pfennige	20·429 marks	
Holland	florin or gulder = 100 cents	12·11 florins	stiver = 5 cents
Denmark, Sweden, and Norway	krone (crown) = 100 öre	18·16 kroner	
Hungary and Czecho-Slovakia	krone (crown) = 100 heller	24 02 kronen	

It will be seen that these coinages are all arranged on the decimal principle, British and Indian money being the chief exceptions to this rule.[1] Britain, Australia, and South Africa use pounds, shillings, and pence. Switzerland and Belgium have the same coinage as France; whilst the moneys of Italy, Spain, and Greece are also modelled on the French system, though their coins are given native names. Denmark,

[1] A proposed scheme of British decimal coinage is explained in the Appendix.

Sweden, and Norway go together again. Canada calculates in dollars and cents of the same value as those of the United States; but she has no gold coins of her own. Notes are issued freely, and when gold is needed, the American eagle (10 dollar-piece) or the British sovereign is used. With these exceptions, the different countries all have different monetary units. Were it possible for all to adopt the same unit, no conversion would be necessary in the sending of payments from one country to another; and there would then be only what has been termed the cost of remittance to take into consideration.

4. How Foreign Payments are Actually Made. If Higgins buys from me goods valued at £200 and I buy from him goods valued at £220, it is not at all necessary that he should make any payment to me. My paying to him the balance of £20 will settle both transactions. So, if France sells Great Britain £2,200,000 worth of goods in a given period, and Great Britain in the same period sells France £2,000,000 worth, the two countries can settle with each other by Britain paying and France receiving £200,000 only.

My payment to Higgins would probably be made by cheque, which is the usual form of inland commercial remittance. But it might be made in bank notes, or in Treasury notes; or, again, there is a possibility of its being made in gold. In the ordinary course of home trade, any of these methods would be quite satisfactory to the creditor. But, for settling the *balance* of £200,000 owing by Great Britain to France, no cheque or bill of exchange, no bank or Treasury note, would be acceptable. To wipe out the balance of indebtedness, the £200,000 when remitted would have to stay in France, and these forms of money do not circulate there. The French people would not take them; or, if they did, they would not keep them, because they could not use them for their own currency purposes. Banks might hold some of them as investments for a short time, but sooner or later they would be sent back to Britain, so that payment in some more acceptable form might be given in return. French gold

coins obtained from the Bank of England would do splendidly, because they would pass into circulation in France. British gold coins, or those of a third country, or bars of uncoined gold would do also, because they would be welcome as an addition to the gold reserve of the Bank of France. More goods or services would settle the balance, of course; but if the surplus of trade persisted in falling on the side of French exports gold would, in the long run, probably be shipped.

Suppose for the present, that there is only one bank in Britain and only one in France; that the British exporters all draw bills for the accounts owing to them; that their French customers accept these drafts and make them payable at the Bank of France. Suppose, further, that the French exporters, too, all draw for their accounts; that their British debtors accept the drafts and make them payable at the Bank of Britain. The drafts to be paid by the Bank of Britain will amount to £200,000 more than those to be paid by the Bank of France. The former may ship gold for this difference, and both banks then start clear for what the next period of trading holds in store.

So many drafts are, however, quite unnecessary. Those drawn by the British exporters might be dispensed with entirely. The French exporters could, as before, draw bills for £2,200,000 to be accepted by their British customers and paid by the British bank. Immediately on their being drawn, they could be offered for sale in Paris; and the French importers who had payments to send to London would buy them, up to the amount of the £2,000,000 that they owed in Britain. The buyers would post them to their British creditors, who would get them accepted, and then either keep them and collect them at maturity, or discount them in the meantime. This would still leave in Paris £200,000 worth of bills that the French importers of goods would not require. These would be sold to the French bank, which would send them to its representative in London for the acceptances to be obtained. When the bills fell due and were collected,

the proceeds could be shipped to Paris in gold drawn from the Bank of Britain.

But neither of the courses sketched above agrees exactly with what actually takes place. It probably happens that some of the creditors on both sides draw on their respective debtors, and that of the remaining debtors some pay by cheque, whilst the others remit drafts bought from their banks or else bills purchased in their own bill markets. Then, instead of only one bank operating on each side, there will always be a number of banks and bill merchants interested to varying extents in the exchange transactions of the two countries. Further, as shown in Chapter XXI, many of the bills payable in this country are, when accepted, bought in the London Money Market by the British banks, and held by them as short-term investments until, one by one, they fall due and are paid, and others take their place. In Paris, the French banks buy quantities of bills for the same purpose, and take those payable in Britain or in other countries as well as those payable in France. Bills drawn in France on this country are made out in sterling, and sold in Paris at so many francs and centimes to the pound, the rate fluctuating—moving above or below Mint par—with the different conditions prevailing at different times.

5. Fluctuation of Exchange Rates. The price paid in Paris for these bills on London changes from the same causes that change the prices of other commodities there or anywhere. If it so fell out, between two trading countries, that the sums due to the one came to exactly the same total as those due to the other, no payment would have to be sent either way, and therefore no charges for remittance would be incurred. The price of bills would then be at, or very near, the Mint par of exchange. If, however, there are in France at any time more buyers of bills on London than there are sellers, the price will rise, because the buyers will outbid each other as each one tries to procure all the drafts he needs from a supply that is not enough to go all round. On the other hand, if there are more sellers than buyers, the price will

fall, because each seller will tend to undersell his competitors in order to dispose of all his stock in a market that does not want the whole of the drafts on offer. Fluctuations in the rate of exchange originate in the difference between the supply of bills and the demand for them, that is, in the balance of indebtedness for the time being between the two countries concerned. When the supply of bills is short, the price rises above Mint par; and it falls below that point when the supply is plentiful.

Still, there are limits to the extent of the rise and fall. If gold is to be had in the centre that has a surplus to pay, the rise in the exchange there will not go beyond, or at any rate not much beyond, the Mint par plus the cost per £1 of transporting gold. Such limits to the rise and fall in rates are called the *gold points* or *specie points* of the exchange. Between London and Paris they are said to be about 25·12 francs to £1 for gold to move to Paris, that is, for the London export point; and 25·32 for the metal to travel in the opposite direction, that is, for the London import point. Between London and New York they are given as about 4·84 and 4·90 dollars to £1. Theoretically, no buyer in Paris of bills on London would give more than 25·3215 francs to £1, if 10 centimes for £1 were the cost of carrying gold from Paris to London. He would send gold instead of bills. Theoretically, also, no buyer in London of drafts on Paris, or seller in Paris of drafts on London, would be satisfied with an exchange of less than 25·1215 francs to the pound, if for 10 centimes to the pound gold could be sent from London. The trouble is that gold is not invariably procurable in foreign capitals. Besides London, the places where gold could usually be obtained for export have been Paris, Berlin, and New York. These four cities, therefore, used to be called the *gold centres*. As regards London, the lower or export gold point has, in usual times, always been effective in taking gold away; but the Bank of France, and the Imperial Bank (Reichsbank) of Germany, both put difficulties in the way of the exporter of gold when they preferred to

keep the metal. London was the only centre where there had always been a free market in gold and where gold for shipment could always be obtained before the war.

But the course of exchange between two countries does not depend altogether on the condition of trade between these two countries themselves. A third country may be brought in to help. Canada, for example, takes far more goods from the United States than she sends there. The excess she does not pay direct. She pays it by means of bills drawn on London against funds she has raised here; and London has to settle with New York by remitting bills payable in the States. Owing to similar three-cornered operations, the Belgian and the Swiss exchanges used to be more or less controlled by Paris; and the Scandinavian and the Dutch exchanges by Germany. Moreover, the gold points cannot be absolutely fixed. The cost per £1 for shipment will vary with the amount of gold to be shipped, and with the facilities that different houses possess for carrying the shipment out. Lastly, it is not just the movement of *goods* that determines on which side the balance of payments will fall. *Services* have to be paid for as well as goods, and Great Britain claims payment for many services in the form of freight charges, insurance premiums, and interest on loans and investments. Such services, because they are not included in our trade returns, have been termed *invisible exports*. The raising of loans or capital here for a foreign country affects the exchange in the same way as imports of merchandise, for an operation of this kind furnishes the foreign country with funds in London on which it can draw, just as if it were drawing on British debtors for goods.

6. Finance Bills. So far, what has been written would appear to imply that every foreign bill bought or sold has its origin in some claim actually existing between the drawer and drawee of the bill. But that is not so. Before the course of exchange reaches either of the gold points, another factor comes into play. The Paris exchange on London has only to rise a few points to make it profitable for Paris

bankers to create bills on London and sell them in the Paris bill market. These bills do not represent goods, or services, or interest, and for that reason they are called "finance bills." They are a variety of the kind named "accommodation bill" in Chapter XII; but they are useful instruments. They help to steady the exchanges, and to provide means of remittance without recourse being had to the cumbrous method of transporting coin or bullion. An example frequently quoted of the advantage of finance bills is to be found in the trade relations of Great Britain with the United States. Every year, after harvest in the States, vast quantities of produce are shipped to this country. Such export activity gives rise to a corresponding volume of bills on London—far more bills than there are buyers for in New York—with the further result that the rate of exchange falls. But, as the movement occurs annually, it is foreseen and prepared for. Earlier in the year, when the balance of trade is on our side and the exchange is high, New York bankers find it profitable to meet the demand for bills on London by drawing on their correspondents here. The payment of these drafts reduces the credits that the American bankers keep in London; but the reduction is only temporary. When the glut of harvest bills comes along, the bankers in New York buy at favourable rates, and send the bills here to be collected and added to their depleted London funds.

When banks draw finance bills, they only take upon themselves the debts that were owing by the buyers of the bills. In order to settle those debts, they have some time or other to cover their finance bills by genuine trade bills drawn against actual debts on the other side. Trade bills may be bought in beforehand, and sent forward in anticipation of the need of issuing finance bills later; or, the finance bills may be issued first in expectation of trade bills appearing at the usual time. The price that will be charged for the finance bills will be what it has cost or will cost to acquire the trade bills, together with a commission or profit in respect of the banker's services and those of his correspondent.

These considerations will govern the price of exchange when it is moving towards gold point and so long as the exchange can be worked within the gold points. When that ceases to be possible, gold will begin to move. The shipment of gold is, therefore, always carried out by banks or financial houses, and not by the traders themselves.

The most legitimate kind of bill, because it is the most genuine, is that drawn against produce which is being moved to market and which will be sold before the bill matures. It is one of the chief functions of a bill that it tides over the period between purchase and sale—that it serves as a security on which money can be raised for the purpose of paying for the purchase and of carrying the produce to the place of sale. Finance bills, not arising out of movements of produce already on foot, but drawn in anticipation of those to come, find their justification in the fact that they avert the necessity for shipping gold, and yet prevent the rate of exchange from falling very low at one time and rising very high at another. Every finance bill issued increases the supply of bills, helps to cheapen the exchange, and counteracts the tendency which brought the bill into being. But bills are sometimes drawn for the purpose of raising money to be sunk in the permanent equipment of some trade or manufacture, the bills being regularly and continually renewed as they fall due. Such bills are dangerous. If anything happens to prevent their renewal, it is difficult for the acceptors to find the wherewithal to meet them as they mature. Bills drawn on one branch by another branch of the same business are known as *house bills*; and, when an unusual number of such bills are in evidence, the suspicion attaching to them is pointedly expressed by their being described as "pig on pork."

7. Bills of Exchange on London. London being the chief market of the world for loanable capital, huge sums have been lent by London to foreign governments or to trade undertakings in foreign lands. The extent of these British interests abroad, and the magnitude and variety of British

commerce with other countries, have made London a place in which a correspondingly large number of foreign payments have to be received or paid. So circumstanced, London has become the chief centre in the world on which bills are drawn. Further, as money can nearly always be lent in London for short periods, and because London is a free market for gold, foreign bankers send bills here to be collected, and they keep here the funds so realized. They use these funds to pay bills drawn on their London offices or agents, or to take gold away when they want it abroad, or to serve merely as a reserve put out at a low rate of interest and realizable on short notice. London is, in fact, an international banker holding balances belonging to other countries which they find it convenient to keep here, London using the balances to earn a higher rate of interest than it pays for them, and pocketing the difference. Further reasons why the British Metropolis has been selected as the resting-place of a large part of other countries' reserves are, probably, its insular security from the ravages of war, and the good name that its banking institutions enjoy for working on sound principles and not occupying themselves with speculative business.

Not only are bills on London drawn for goods imported by this country, but they are drawn also for goods shipped to other parts. Tea may be sent from China to America, or coffee from Brazil to the European Continent, and in both cases the bills drawn for the value of the merchandise will probably be drawn on London. The foreign exporter prefers the bill on London because such a bill is more easily sold by him in his own country than a bill on any other centre. Even when the goods are sent here, the foreign exporter prefers to draw on us rather than leave us to remit to him, because he can at once sell his draft to an importer abroad, who wants to use this draft payable in London as the means of paying for the goods that the importer has bought. And the foreign importer prefers to buy such a draft rather than accept his creditor's, because he thereby exercises more control over the price he must pay for exchange.

London being the clearing centre of international payments, there has arisen here the peculiar business of the "accepting houses," which for a commission allow themselves to be drawn upon on behalf of buyers of goods here or abroad. The English banks also accept bills on behalf of their customers and their foreign correspondents. A bill drawn on a bank or accepting house gives the drawer and each subsequent holder a sense of security about its ultimate payment. It is, therefore, more readily sold abroad by the drawer, and it brings him the best price obtainable. Also, when it reaches London it can be discounted more readily and at the lowest rate.

Several of the foregoing statements describe conditions existing when war broke out in Europe in 1914. Since then Paris and Berlin have ceased to be gold centres, and the monetary and exchange positions of European neutrals have become of more importance. London, also, ceased to be a free market for gold until 1925 ; whereas, right through the war, gold could always be obtained in New York, where much of the world's stock accumulated. Many bills, particularly from South America, began to be drawn on New York instead of on London, as formerly. It is believed that some of this business will return to London, now that gold for export is freely obtainable here again.

8. Rates of Exchange. (1) *How the Rates are Quoted.* On the next page we give a table of foreign exchange rates quoted in London on 18th September, 1925. Most of the rates are given at so much of the foreign currency to the pound sterling. Lisbon is the only city in Europe that is not quoted in its own currency. Russia is stated in chervonetz to £10, the chervonetz being a new coin equal to ten gold roubles, whilst a rouble equals ten copecks. The new gold schilling of Austria is fixed as equivalent to 10,000 of the old paper crowns or krone (each = 100 heller), the par of exchange for which used to be 24·02. It will be noticed that the twelve currencies, from Paris downwards, have, for their unit, either the franç or a unit of the franc's nominal par value. Some of them, like

those of Poland and Finland, are new currencies created since the war.

For Portugal and South American countries rates are quoted in British pence to the foreign unit, with the exceptions

FOREIGN EXCHANGE RATES QUOTED IN LONDON

London on	Quoted in	Par	Rates.	Usance.
New York	dollars to £1	4·86$\frac{2}{3}$	4·84$\frac{11}{16}$–$\frac{3}{4}$	cable
Montreal	" "	"	4·84$\frac{11}{16}$–$\frac{13}{16}$	"
Paris	francs "	25·22$\frac{1}{2}$	102·43–48	T.T.
Brussels	" "	"	109·65–75	"
Switzerland	" "	"	25·10–12	"
Italy	lire "	"	117$\frac{5}{8}$–$\frac{7}{8}$	"
Spain	pesetas "	"	33·60–63	"
Greece	drachmae "	"	333–336	"
Warsaw	zlotys "	"	28$\frac{1}{4}$–$\frac{3}{4}$	"
Riga	lats "	"	25·00–25	"
Helsingfors	Fin. marks "	"	192$\frac{1}{8}$–$\frac{3}{8}$	"
Belgrade	dinars "	"	270–273	"
Bukarest	lei "	"	1,000–1,010	"
Sofia	levas "	"	665–675	"
Amsterdam	florins "	12·107	12·05$\frac{3}{4}$–6	"
Copenhagen	krone "	18·159	19·78–83	"
Stockholm	" "	"	18·05–07	"
Oslo	" "	"	22·85–88	"
Berlin	gold marks "	20·43	20·35–37	"
Vienna	schillings "	34·58$\frac{1}{2}$	34·40–45	"
Budapest	kroner "	24·02	345/347,000	"
Prague	" "	"	163$\frac{1}{2}$–$\frac{7}{8}$	"
Constantinople	piastres "	110	855–865	"
Alexandria	" "	97$\frac{1}{2}$	97$\frac{15}{32}$–$\frac{17}{32}$	sight
Leningrad	chervonetz to £10	9·46	9·40$\frac{1}{2}$–41$\frac{1}{2}$	T.T.
Lisbon	pence to escudo	53$\frac{1}{4}$	2$\frac{15}{32}$–$\frac{17}{32}$	"
Buenos Ayres	pence to peso	47·62	45$\frac{9}{16}$–$\frac{5}{8}$	"
Monte Video	" "	51	49–49$\frac{1}{2}$	"
Rio de Janeiro	" to milreis	16	6$\frac{11}{16}$–$\frac{23}{32}$	90 days
Valparaiso	pesos to £1	13·33	39·60–70	"
Lima	Eng to Peru. £1	par.	21$\frac{1}{8}$% prem.	"
Mexico	pence to dollar	24·58	24$\frac{1}{4}$–$\frac{3}{4}$	T.T.
Yokohama	ster to yen	24·58	1/8$\frac{5}{16}$–8$\frac{3}{8}$d.	"
Singapore	" to dollar	—	2/4$\frac{1}{8}$–4$\frac{1}{4}$d.	"
Hong Kong	" "	—	2/4$\frac{3}{4}$–5$\frac{1}{4}$d.	"
Shanghai	" to tael	—	3/2$\frac{1}{4}$–2$\frac{3}{4}$d.	"
Calcutta and Bombay	" to rupee	24d.	1/6$\frac{5}{32}$–6$\frac{3}{16}$d.	"

of Chile and Peru. In the last case it is £1 to £1, but the British sovereign, it will be seen, stands at a premium on the Peruvian pound or libra. Rates between London and South Africa or Australia, where the currency is the same as our own, are also quoted at a premium or a discount, as circumstances require. Eastern exchanges all appear in the table in shillings and pence to the local unit, e.g. 1s. $6\frac{1}{32}$d. of British money to the Indian rupee. A rate of 4·85 to £1 names the price of U.S. dollars in the same way as a shopkeeper prices his eggs, when he offers them at eight for a shilling; whilst the pricing of Argentine dollars at $45\frac{1}{2}$d. to $1 is just like another shopkeeper's offering eggs at eighteen-pence a dozen.

The two rates given in each quotation name the limits between which prices fluctuate, the higher price being what buyers pay, and the lower what sellers get. Again, prices vary a little according to whether the bills are bank bills or trade bills. Bank bills are those bearing the name of a bank as drawer, acceptor, or endorser. Being the finer class of paper they sell at a better price; that is, at a slightly lower rate, when the rate is expressed in foreign currency, and at a slightly higher one when it is expressed in sterling.

(2) *Arbitrage Operations*. There can never be any very appreciable difference between the T.T. (telegraphic transfer) rates quoted here and those quoted abroad for the same exchange. Any such difference would be taken advantage of immediately. For example, if the London rate for bills at sight on Holland were higher than the rate in Amsterdam for demand drafts on England, a Dutch dealer in exchange could purchase by telegram Dutch bills in London at the high rate, and the same day in Amsterdam buy at the low rate sufficient bills on England to repay the outlay made on his behalf in London. When the bills from London reached Amsterdam, they would yield the operator a profit corresponding to the difference in the rates, which profit he would share with his co-operator in London. This kind of manoeuvre is sometimes referred to as an *arbitrage* operation; but the term is applied also to transactions involving three countries

or even more than three. For example, Berlin may have a balance to settle in London, and to do so may buy in Amsterdam bills drawn on London, paying for them with bills bought in Berlin and payable, perhaps, in Copenhagen. Such operations are resorted to only when it is found that indirect exchange through an intermediate country will work out at a lower rate than that quoted for exchange between the debtor's and the creditor's centres direct.

(3) *Favourable and Unfavourable Rates.* When we say that a rate is "favourable" to London, we mean that a buyer here of foreign bills commands, for each pound he gives in sterling, more than par of the foreign currency. The rate is "unfavourable" when he gets less than Mint par. A favourable condition of exchange between this and another country arises when the balance of indebtedness is for the time being in our favour, which tends to bring us gold in payment of the balance; whilst an unfavourable rate arises from a balance of indebtedness against us, and tends to take gold away. Therefore, rates quoted here in foreign currency are said to "move against us" when they *fall*; and those quoted in sterling to move against us when they *rise*. It should be noted carefully that, when rates given in foreign currency are high, buyers here get their bills cheap, but sellers have to part with them for less than Mint par in sterling; that, on the other hand, when rates in foreign currency are low, buyers here find bills dear, and sellers receive more than Mint par in payment. With rates quoted in sterling, it is, of course, the reverse that holds true in each case.

(4) *Long and Short Exchange.* In nearly all instances our table gives the T.T. rate; that is, the rate for reserving by telegraph to the foreign centre the amount of currency required to be paid out there. The rate for cheques or drafts payable at sight is called the "short exchange." The "long exchange" is the rate for three-months' bills. The difference between the two represents chiefly interest for the extra time the latter bill has to run; and the rate of interest calculated

is that at which the bill, after it has been accepted, can be discounted in the country on which it is drawn. Thus, in pre-war days, the long rate, London on Paris, would have worked out somewhat as follows—

	Francs
Sight Rate (bank paper)— London on Paris	25·175
Add:	
Interest at the market rate of discount in Paris, viz., $2\frac{3}{4}$%	·173
Stamp ($\frac{1}{2}$ per mille)	·0125
For contingencies	·002
Long Rate—London on Paris	25·3625

Bank paper is discounted at the lower or market rate, whilst trade paper requires the calculation to be made at the higher bank rate. In Paris the long rate on London has the interest and charges deducted instead of added. A buyer in London of a long-dated French bill *wants* the number of francs named in the sight rate *plus* interest for the time that his French creditor, to whom he remits the bill, would have to wait for it to mature. On the other hand, a buyer in Paris of a sterling bill *gives* the number of francs in the sight rate *less* interest for the time that his English creditor would need to wait for payment of the bill in full. Either creditor can, of course, by discounting the long-dated bill in his own market, receive at once the value at sight rate. Exchange rates depend, therefore, on the effect of supply and demand, modified in the case of long exchange by the discount rate ruling in the centre where the bill is payable. For a term intermediate between the short and long dates, a *tel quel rate* would be given, that is, a rate specially calculated to suit the particular bill.

In the present unstable condition of many of the exchanges, a merchant here does not know what the rate will be at the future date on which he will be required to pay for goods he has just ordered from abroad. Because the merchant cannot fix his selling price until he knows what his cost price is going

to be, the banks have for some time been prepared to buy "forward" exchange for him; that is, they buy for him now currency to be paid out in the foreign country at the time he will require it. As an alternative, the importer may, when he finds the rate favourable, get his bank to buy for him currency to be held at his disposal in the foreign centre, and to be drawn upon at *any* time, in whole or in part, just as it suits him to use it.

(5) *Conversion of Currency.* The conversion of one country's currency into that of another is simply a matter of multiplication or division, as the case may require. If the exchange rate between London and Paris were 25·20, the price to be paid in London for a bill drawn on France amonnting to 12,600 francs would be—

$$£(12{,}600 \div 25{\cdot}2) = £500.$$

An exchange rate of 12 florins $2\frac{1}{2}$ stivers between London and Amsterdam would require—

$$£(5{,}000 \div 12{\cdot}125) = £412{\cdot}371 = £412\ 7s.\ 5d.$$

to be paid for 5,000 florins receivable in Amsterdam. Reversing the operations and using the same rates, we get—

$$500 \times 25{\cdot}2 = 12{,}600 \text{ francs}$$

as the price in Paris of £500 payable in London; and

$$412{\cdot}371 \times 12{\cdot}125 = 5{,}000 \text{ florins}$$

as the price of £412 7s. 5d., when a merchant in Amsterdam buys a bill on London for that amount. With the rates of several countries involved in a single transaction carried through by indirect exchange, the calculations become complex.

Many bills drawn by merchants here on their customers abroad have the amounts stated in sterling, each bill being expressed as payable at a rate to be named in the first endorsement. There is in this practice an advantage to the drawer, inasmuch as he receives from his bank here the exact sterling value of the goods for which the bill is drawn; and thus shifts on to the shoulders of his customer, the drawee, all trouble about conversion of prices to foreign

currency and all uncertainty regarding fluctuation in the rate of exchange. The merchant draws the bill payable to his bankers, and when they sell the bill in London, or pass it on to their branch abroad for collection, they name the current rate of exchange in their endorsement. The endorsee then writes on the face of the bill the amount converted at that rate, and thenceforward the bill is treated as if it had originally been drawn in the foreign currency. A reference to this practice will be found in Chapter XI, Section 8, in the National Bank of India's instructions to drawers as there given. There will also be found in Section 7 of the same chapter a specimen draft in sterling that mentions the rate at which the drawee of the bill is required to pay it in rupees. Orders given by cable for payments to be made in foreign parts, or "telegraph transfers" as they are sometimes called, have the same advantage of eliminating the possibility of loss due to changes in the rate. This last method of payment is much more common than it used to be.

9. **The Exchanges and the Money Market.** When the Bank of England rate of discount is raised, the other rates of discount and interest usually rise in sympathy. If these rates are above those on the Continent, they bring money over here, because it can then be employed here to more profit than elsewhere. But the sending of money here in any quantity causes London bills in foreign centres to be bought up and the supply to give out, thus raising the rates of exchange in favour of this country. Should the remitting of money to London continue, so that rates on London rise to specie point, the remittances begin to arrive in gold; and the receipt of the gold reacts on the Money Market. The metal so imported comes to the Bank of England and increases the Bank's reserve. If the increase leads, as it may do, to a reduction in the Bank rate, other rates of discount and interest will be affected too.

Because of opposite tendencies, a low rate of discount causes the recall of money from London, and prevents the renewal of funds here as they are gradually used up. This

state of affairs in its turn increases, both here and on the Continent, the demand for bills payable abroad, and decreases the Continental demand for bills on London. As a consequence, the rates of exchange go against London and gold begins to be exported. The result probably is that bank rate is raised immediately, and that the movement of the exchange sets out in the reverse direction again.

A foreign banker takes up as short-term investments first-class bills payable in London, as well as those payable in his own country and in others. If the market rate of discount here is high, the price at which he can buy long-date bank paper on London will be low, and his prospective profit correspondingly high. But the realization of that profit will probably depend on the rate of exchange keeping up. For, if he has to sell his London bills as they approach maturity, so that they may be presented for payment in London at the proper time, and if the price of the bills has fallen on his market in the interval, his profits will be shrunk in proportion to the fall. A decline in the rate of exchange may, therefore, cause him to sell out if he thinks he can use his money to greater benefit in some other way. But a rise in the exchange might also cause him to sell at once in order to take the opportunity, while it lasts, of securing an unexpected increase in his profits. Moreover, a decline in the rate of discount in London will be likely to keep him from renewing his stock of these long-date British bills as from time to time portions of his holding run out. It is plain, then, that movements of the discount rates in London affect the demand for and supply of bills on London, whilst changes in demand and supply lead directly to rise or fall in the rates of exchange, and these react through import or export of gold on the London discount rates again. Thus do influences in the Money Market pass to the exchanges, and those in the exchanges to the Money Market, the rate in force for the discounting of bills being the link between the two.

10. **Silver and Paper Exchanges.** Between a country with a silver-standard currency and one with a gold standard,

there can be no Mint par of exchange. Into the operations of exchange between two such countries there is introduced the question of how much silver money of the one is equivalent in value to the gold unit of the other. But the price of silver bullion in terms of gold varies just as the prices of all other commodities vary from time to time; and this continual variation causes the exchanges with silver-standard countries to be unsteady. The London rate of exchange with a silver-standard currency is based on the price for the time being in sterling of an ounce of silver bullion, but modified, of course, by the degree of purity of the coins of the silver currency, and as before by the supply of and the demand for bills between the two places.

In India the unit of coinage is the silver *rupee* ; but gold coins now circulate at the rate of ten rupees to the British sovereign, which makes the rupee nominally worth 2s. for purposes of exchange. The rupee is divided into sixteen annas, so that one anna is the equivalent of 1½d. Indian exports to Great Britain so preponderate over imports from us, that the balance of debt is usually against us ; and that is so, notwithstanding the millions paid annually to this country in respect of Government expenses, salaries of officials, and interest. To confine exchange fluctuations within narrow limits, the Indian Government, before the war, supplied the demand in London for drafts on India by the issue of *India Council Bills*, or of telegraph transfers, payable in Calcutta, Madras, or Bombay, from funds kept there for the purpose. Week by week the Bank of England asked for tenders for these bills. Payment was taken in pounds sterling in respect of the tenders accepted, and was put to the credit of the Indian Government account at the Bank. In India the money was paid out in rupees to the persons to whom the drafts were remitted from England. When, as sometimes happened, the exchange took a turn in our favour, the issue of bills in London was suspended, and "Reverse Councils" were offered in India payable at the Bank of England in London. The rise in silver, consequent on the

war, deranged the Indian exchange, and stopped that procedure. Up to 1920 the par value of the rupee had been fixed at fifteen to the £1, or 1s. 4d. the rupee. Since its par value was altered to 2s. the exchange rate has gone down, silver having fallen in value, and the pound having risen.

China is a silver exchange country, with no regulation or control like that of India. There small payments are made in copper coins of minute value known to the British residents as "cash." The larger payments are quite commonly made by weight in silver metal, the unit of weight being the *tael* of about 580 grains. In some of the seaports, and particularly in Hong-Kong, the Mexican dollar has been selected from amongst other foreign coins as a more satisfactory form of money. Dollar notes also are issued by the British banks operating there. The exchange rate between Hong-Kong and London is quoted in pence to the dollar, as shown on page 311; whilst between Shanghai and London the rate is given in pence to the tael.

By *paper exchanges* is meant those of countries where the circulating part of the currency consists of inconvertible notes. The quantity of metal in the gold or silver coin which should be the standard of such a country is no criterion of the value of its notes. The extent to which these have depreciated will depend on the amount of their over-issue; and the exchange rate ruling at any time will have to be accepted, just as the price of silver bullion, or of sugar, or of petroleum is accepted, without any exact explanation of every rise and fall. Exchange with a country whose notes are depreciated by over-issue must always be adverse to that country; and the greater the over-issue, the more adverse will the rate be.

The method of regulating foreign exchange, as practised by India from 1899 until it broke down in the war, is known as the *gold exchange standard.* Something like it has been tried by other countries unable to offer freely gold for export, when the exchanges are against them. The method requires that the country adopting it shall maintain abroad a reserve of gold or credit, against which drafts can be sold at home,

when the rate moves too much in favour of the foreign country. If the rates move in favour of the home currency, drafts payable at home can be sold abroad, and the proceeds will replenish the reserve held there. The arrangement will not work, however, in very unstable conditions. In 1919 Britain had to stop "pegging" the American exchange. 'We had been maintaining, in New York, funds for buying up there at 4·76$\frac{1}{2}$ dollars to the pound, the excess of drafts offered on this country. But that policy became too costly to be continued longer, and the London-New York rate fell to 3·19 by the early part of 1920. As the dollar remained convertible into gold, the decline in the New York rate was the measure of the depreciation of our currency. From 1921 onwards the exchange gradually improved, owing to restriction of credit here and to the rise of prices in the States. By the close of 1924, the rate reached so near gold parity as to make practicable the early restoration of our currency to the gold standard.

11. Gold Standard Act, 1925. The provisions of this Act, passed on 13th May, 1925, are in effect as follows—

(1) Until declared otherwise by Royal Proclamation—

(*a*) The Bank of England shall not be bound to pay legal tender coin for its own notes, or those of the Treasury;

(*b*) Both kinds of notes shall, nevertheless, continue to be legal tender;

(*c*) The Mint shall not coin gold bullion brought to it for coining, unless the bullion is brought by the Bank of England.

(2) The Bank shall be bound to sell on demand, and for legal tender, gold bullion in bars of 400 fine ounces, at the rate of £3 17s. 10$\frac{1}{2}$d. the standard ounce.

(3) The Treasury may raise money for exchange operations in connection with the return to the gold standard.

The reader will notice that the Bank is not prohibited from cashing its own or Treasury notes in gold coin; it is only given the option of refusing to do so. The Bank is, however, compelled henceforth to exchange the notes for bar gold, on demand. This bar gold can now be exported, as the embargo on export, imposed in March, 1919, was allowed to lapse at the end of 1925.

12. Purchasing-power Parity. We have stated that the

price of foreign bills changes with the balance of indebtedness, for the time being, between the two countries concerned—that, when on any day bills on one country are plentiful, the price falls; when they are scarce it rises. Such are the causes of temporary fluctuations in an exchange rate; but there is an underlying par of exchange, a more permanent relative value, about which these fluctuations move. That rests on other conditions which the events of recent years have brought into clearer view. If the two currencies are on a gold basis, gold being freely obtainable in either country when wanted for payment to the other, the par of exchange of the two currencies is fixed by the ratio between the gold contents of their standard coins. In other words, what determines the par of exchange is the quantities of the same commodity, gold, that the respective units of currency will buy. If, on the other hand, one or both of the currencies cannot be changed into gold, there is no gold par. How, then, can we ascertain, apart from fluctuations, the ratio that exists between two currencies, where one or both are not convertible into gold?

The par exchange of the two currencies is, in that case, determined by their relative powers to buy commodities in general, other than gold. The power of money to purchase goods depends on the quantity of goods, and the quantity of money, available at the time. Were the quantities of goods on offer the same in both countries, the relative value of the two currency units would be in the same ratio as the quantities of money in the two countries. That statement assumes, however, that all goods move freely between the countries, because when goods can move freely from place to place their price in the two places cannot differ by more than the cost of transport. This theoretical ratio is called the "purchasing-power parity" of the currencies. It cannot be ascertained exactly, because all goods do not move freely between distant places so as to level their price in both, and because the index numbers that express the purchasing power of money in both places cannot be calculated correctly. Taking the pre-war index numbers as 100 in each case, they had risen at

December, 1921, to 140 in the United States, and to 162 in Great Britain. Pre-war gold parity being 4·866, the purchasing-power parity for December, 1921, should work out at $4{\cdot}866 \times 140 \div 162 = 4{\cdot}205$. The rate of exchange was in fact about 4·175. This theory shows how the exchange rates of a country with a huge over-issue of paper must be heavily against that country It should be added that, owing to fleeting influences, the exchange rate ruling at any time may move farther up or down than the calculated purchasing-power parity does.

CHAPTER XXIII

LAW OF CONTRACT AND AGENCY

1. **Mutual Rights and Obligations.** The word "contract" used in the legal sense means any agreement that the parties to it intend to be valid at law. By such an agreement, each party acquires certain rights and undertakes corresponding liabilities. Suppose farmer Giles decides that he must buy a new wheelbarrow. When next in the neighbouring market town, he makes a call on wheelwright Stiles. They pass the usual remarks on the weather, inquire for each other's health and prosperity, make observations on the state of growing crops, and apply their minds laboriously to things in general about the town and district. At last the conversation moves to the purpose of the farmer's call, and they arrange for the building of the lowly vehicle that the farmer wants, the price to be £3 5s. and delivery to take place on that day fortnight. Our worthy friends have between them made a contract binding in law; and their mutual relationship regarding it may be stated analytically thus: Giles, (1) has acquired the right to have the barrow made by the time named, and (2) has made himself liable for the price agreed upon; whilst Stiles (3) has taken upon himself the obligation to supply the farmer's want, and (4) will acquire a just claim to the £3 5s. when the work is done. No matter how important or how trivial a bargain may be, the principles are just the same. If I take a leaky kettle to be tinkered and the tinsmith promises to mend it, then I get a right to so much of his labour and he to so much of my money. His obligation is to do the work; mine to pay the tenpence that he charges.

2. **Form of a Contract.** A contract may be express or implied. "Express" signifies that the terms of the bargain are put into words, oral or written. "Implied" means that the terms are deduced from the conduct of the parties—

conduct of some kind other than the speaking or the writing of their minds. A contract may, however, take partly one form and partly the other. For example, a valuable stag-hound has been lost, and the owner advertises a promise to pay £5 to anyone who finds the dog and returns him. Someone, having found the wayward animal, restores him to his anxious master. Here we have a contract completed, the owner's part of which is in writing, or, what is the same, in print. The finder's part may only be implied from his conduct in returning the dog; but he has a right to the reward that was offered and, should the owner prove ungrateful and unfaithful, the finder can make him pay.

In bygone times, when few people could read and write, the terms of a formal contract were written out for the parties making it, and were read over to them in the presence of witnesses. Each party then set his seal to the document and delivered it, that is, handed the written and sealed contract over to the other party. The document or the contract was called his "deed." Deeds or contracts under seal, sometimes called "specialty contracts," are used for certain of our more important agreements still, especially those that are to run for a considerable time; and they are now signed as well as sealed by the makers, and are usually signed by the witnesses as well. The statements in a deed are taken as more conclusive than those in a written contract not under seal, and the latter more reliable again than statements made by word of mouth.

3. **Consideration.** "Simple contract" is the name given to one made otherwise than under seal. Most of our contracts are now entered into in this way; but, in England, a simple contract requires consideration to support it. That is to say, something must be done, undertaken, or promised by one party in consideration of the promise of the other. As illustration, let us say that, on New Year's Day, A is making good resolutions and thinks of his struggling friend B. In benevolent mood, he writes B and promises, out of funds coming in during February, to lend B £500 for two years to

help him in his business. B sees the month of February come and go; but it brings no loan. He needs the money greatly; yet he has no power to hold A to his written promise, because he has not agreed to give A anything in return. It would have been different if a condition of the loan had been that A was to receive interest, and if B had undertaken to pay it. Morally, a person should consider himself bound to keep every promise he makes. Legally, he is not bound to fulfil a promise when he has received no consideration for it, except in the case where he has made the promise under seal. And consideration is sometimes necessary even in promises under seal.

We have said that consideration is something done, undertaken, or promised in return for a promise. Thus, payment made now may be the consideration for a promise to supply goods on a future day; or goods supplied now may be consideration for a promise to pay. Again, one promise is valid consideration for another promise, as when Giles promised payment in return for the promise of Stiles to supply the wheelbarrow; or, to turn the transaction the other way round, when the wheelwright promised to supply the barrow in return for the farmer's promise to pay for it. In these examples the consideration is something of benefit to the promisor; but it may equally be something to the loss or detriment of the promisee. If X be a twine manufacturer and Y a wholesale dealer, Y may give a promise to buy his twines from X in consideration of X's promise to forbear or refrain from competing for custom in Y's own district.

Consideration must always be something of some value. Where it is a price for goods or services, and the amount was not fixed when the contract was made, it must be a reasonable price. But where the consideration was fixed and agreed to by the parties, then, so long as it is of some value, one will not be allowed to plead afterwards that it is too little, nor the other that it is too much. It must not, however, be some benefit that is past and done with. An action done by one man for another without request and

without promise of reward would not usually give the doer any legal claim on the other. Being in such circumstances of no legal value, the action could not be made the consideration in a contract between the two men entered into at a subsequent date. Further, consideration must not be something that a person is already legally bound to do. A debtor may undertake to pay at once an account that is now due if his creditor will supply him with more goods; but such a consideration would give the creditor no right that he did not enjoy before, and would therefore be invalid for want of value.

4. **Offer and Acceptance.** The *primary essentials of every contract* are offer and acceptance—offer made by one party and acceptance by the other. Apart from the question of consideration, a contract may consist either of—

(i) (*a*) A quotation by a would-be seller offering to supply certain goods or services, and (*b*) an order by a buyer accepting the offer; or of

(ii) (*a*) An order by a would-be buyer offering to take certain goods or services, and (*b*) an acceptance of the order by a seller.

Even where goods are taken and payment made as soon as the bargain is struck, the transaction is still construed by the legal mind as an offer and an acceptance. And, containing the elements of a valid contract, it would give the purchaser a right of remedy in the courts should he discover later that the goods were not what the seller represented them to be. If an offer is made to a particular person, it can be accepted by that person only, or by someone authorized to accept it in his name.

An *offer may be revoked*, that is, recalled or cancelled; but the revocation must reach the other person before he has accepted. Only in one case is the right of revocation denied for a time to the proposer. That happ ns when the other party has given consideration for the offer to be kept open for a while. This amounts to a little preliminary contract which has for its object the reservation of the right to

complete the real contract later, if it is then desired to do so. Thus, P may agree to pay Q £2 over and above the price asked if Q will allow P, until next Friday at noon, the option of buying or refusing a horse, or a gas engine, that Q has for sale. Further, an offer lapses without revocation when it is not accepted by the stipulated time; or within what in the circumstances is a reasonable time, if no limit of time for acceptance was named. In business the proposer often wishes to retain the right to sell to the first comer whether a reasonable time has elapsed or not. He then offers the goods "subject to their being unsold on receipt of a reply." When such reservation is not made by the seller, the offer is said to be "firm."

To be effective, *acceptance must be communicated* to the proposer, or to someone authorized to receive it on his behalf; and, once made, acceptance can never be recalled. Again, it is necessary that the proposer and the acceptor have the same thing in mind. If the parties, through mutual misapprehension, were bargaining about different things, the one would not be accepting the offer of the other, but only an imaginary offer that was never made in fact. There would be no real agreement between them, and therefore no contract. Further, the acceptance, if made at all, must comply with all the terms incorporated in the proposal. If the proposer stipulates for reply by return, the acceptance to be effective must be made by return. If he offers goods at 25s. 6d. carriage forward, it will not do to accept at 25s. 6d. carriage paid. If he offers 500 tons, the acceptance must be for 500 and not for 450. A partial or modified acceptance is no acceptance; it is a counter-proposal which causes the original proposal to lapse, and which the original proposer in his turn may accept or not, just as he thinks fit. As already stated, either offer or acceptance may be implied. If I send to my grocer an order for two Stilton cheeses at 1s. per lb., his delivering the cheeses without comment will be good acceptance of my offer to buy them. It will make the price named in my order binding on the grocer, and the payment

binding on me. But when a person does nothing in answer to an offer, nothing can be implied. Bilkes may write to Wilkes saying, "I offer you three trucks of Burnbright coals, and if I don't hear from you by Monday morning I shall consider it a sale." Wilkes may not want the coal, and his not writing to say so cannot make him liable to take it. Silence does not mean assent.

Where the *Post Office is made the medium* of communication between the parties, the question may arise as to *when* an offer becomes accepted—whether on the posting of the acceptance by the acceptor, or on its delivery at the proposer's place of business. If the proposal came by post, or if the circumstances were such as to imply that the proposer was prepared to recognize the post as the medium of acceptance, then the Post Office would be considered the appointed messenger of the proposer. Delivery of the answer to the Post Office would be deemed to be delivery to the proposer; and acceptance would be complete as soon as it was posted, even if it never reached the proposer himself. For an offer by telegraph, the reasonable time within which acceptance must be made would be by return telegram on the same day; unless, perhaps, the business day were so far advanced on receipt of the "wire" that a telegraphic reply would not reach the proposer any earlier than a letter in the ordinary course of post.

To sum up, the elements of a contract are (1) offer and (2) acceptance, either of which may be express or implied, with (3) consideration in the case of a simple contract. These give rise to (4) mutual rights and obligations. As will be explained presently, (5) writing is necessary in some instances. Writing is always advisable when the contract is not fully performed by both parties at the time of making it.

5. Defects in Contracts. When a contract is described as *voidable*, the term means that some defect, if it should be discovered in the contract, would give to one, but not to the other of the parties, the choice of repudiating the contract or of going on with it, whichever he pleased. A contract

repudiated in this way is said to be "avoided," but unless it is avoided it remains valid. When described as *void*, the meaning is that the contract never was of any legal effect whatever, or that it has become of no effect. The following are some of the defects that may occur in contracts—

(1) *Illegality*. Certain contracts are prohibited by statute; others are bad at Common Law, that is, by the ancient law of the land that has never been incorporated in Acts of Parliament. Under the first head would come an agreement to defraud one's creditors, void by the Bankruptcy Act; an undertaking to pay workmen's wages otherwise than in cash, void by the Truck Acts; and betting or wagering contracts, that, by the Gaming Acts, are so far illegal as to be unenforceable in the courts. An agreement with a journalist to write and publish a libel would be void at Common Law. The journalist could not enforce a claim for payment; but if the payment were made first, and the payer repented of his purpose before the harm was done, the courts would help him to get his money back. An arrangement by which Flooks agrees to help Crooks to maintain a lawsuit against his enemy Snooks with the object of annoying him is void. Such contracts are "against public policy." Perhaps the most interesting under this head from our point of view are contracts in *restraint of trade*. Of these, the most usual are contracts by which one person agrees with another that the latter shall not engage in the same kind of business as the former, within a stated distance of the former's establishment, or until the expiration of a stipulated time. It may be a manager or a traveller that is to be restricted as to another engagement when he leaves his present employer. Or, it may be the vendor of the goodwill of a business that is prevented from taking away part of the connection from the purchaser by starting again too near the old place. The test of legality is whether the restraint is reasonable or not; and if it is found to be unreasonable, the contract is void. Unreasonable it would be when the restriction was wider than necessary to protect the interests of the employer or

the purchaser; or when it would virtually deprive the employee or the vendor of the means of earning his living. For a tailor with a shop in a provincial town, the restriction would be unreasonable if it operated beyond his town and neighbourhood. One Nordenfelt, some years ago, sold the gun-making part of his business to the Maxim-Nordenfelt Gun Company on the condition that he should not, within twenty-five years, engage in another business of that kind anywhere in the world. The courts held him to his contract; but his was a special case, gun-making not being his sole means of livelihood, and the customers for such goods being only a few military powers.

(2) *Incapacity*. An infant is, in law, a person not yet twenty-one years old. Contracts made with him are voidable by him; and, under the Infant's Relief Act, 1874, contracts to lend him money or to sell him goods, unless the goods are necessaries, cannot be enforced against him even if he ratifies them when he comes of age. He, however, can enforce a contract against the other party. Necessaries are food, clothing, lodging, medicine, instruction, and all things required for the maintenance of the infant in accordance with his social station. Things otherwise necessaries are not so if the infant is already sufficiently supplied with them. Goods supplied for trading purposes are never necessaries.

When a person is a lunatic, or incapacitated by drink, a contract made with him is voidable also, unless, again, it is for necessaries. But to avoid the contract, the sobered man or the recovered lunatic (or, if he is still insane, his committee or curator) must be able to show that at the time of entering into the contract the other party knew of his condition.

A corporate body—and this term includes a joint-stock company—cannot make a contract in regard to any matter outside the powers given to the body by its constitution. If it should do so, the contract is void. A famous case was that of the *Ashbury Railway Carriage Co.* v. *Riche*. The company had purchased a railway concession granted by the Belgian Government and had employed Riche to build the

line. When much money had been spent, and the venture was looking ominous, some of the shareholders became opposed to proceeding with the undertaking, and contended that the contract was invalid. The company had powers, so it appeared, to manufacture railway plant and do other things; but not to build a railway, or buy land for that purpose. An action begun by Riche was carried to the House of Lords. There it was held that such work was beyond the company's powers—*ultra vires*, as the lawyers express it—and that the contract with Riche was therefore void.

(3) *Mistake and Misrepresentation.* The party who is the buyer in a contract may make a mistake about the goods he buys, and may want to cancel when his error comes to light. The general rule is that the mistake is the buyer's own concern; that when he goes out to buy he must learn to be wideawake and on his guard. So long as the seller has done nothing to lead him astray, the buyer must stand by the bargain he has entered into.

It is different where the mistake is induced by misrepresentation on the seller's part. Suppose a person sells a piano by saying it is a Broadwood, when it has, in fact, been built not by Broadwoods but only by a maker who was at one time a servant of theirs. The buyer may repudiate the contract if he wishes. Similarly, if the seller of a milk round were to represent his turnover as 250 gallons a week with a handsome clear profit, and if, after taking up the business on condition of the representation being true, the buyer found to his sorrow that the turnover was barely 100 gallons and the profit all absorbed in expenses, then he could set the bargain aside and claim his money back.

Misrepresentation is of two kinds—innocent and fraudulent. Innocent misrepresentation, when it is a radical part of the contract, makes the contract voidable by the party misled. When a false representation is not vital, the contract must proceed, the injured party's remedy being an action for the damages sustained. The fraudulent brand always makes the contract voidable and gives the right to damages in

addition. In both cases it is possible for money paid to be recovered; but action must be taken before the positions of the parties are so changed, or the interests of outside persons so affected, that restitution has become impossible.

6. **Particular Contracts.** Several classes of particular contracts are dealt with in this book under Cheques, Bills of Exchange, Insurance, Carriage, Partnership and Companies. The law requires that certain contracts be made by deed. Such are the sale or mortgage of land, leases for more than three years, bills of sale, some transfers of stocks and shares, some contracts of corporate bodies. There are other contracts that are required to be in writing, though not under seal. The documents incorporating some of them, however, are often of a very informal character. To this class, required to be made in writing but not by deed, belong: (1) bills of exchange; (2) insurance policies; (3) an assignment of a debt (*i.e.*, where a creditor transfers to another person his claim against a debtor). In the last case, notice of assignment must also be given in writing to the debtor. To the same class belong (4) a guarantee by one person of the debt owing by another; (5) any agreement not to be completed within one year from its being entered into (*e.g.*, the engagement of a manager or traveller for more than twelve months); and (6) the contract for a sale of goods of the value of £10 or upwards noticed in the next chapter.

In many cases, contracts must be stamped—some before, some either before or after execution—the stamp being a duty levied by the Government as a means of raising revenue. No stamp is needed, however, on an agreement not under seal:

(1) For the hire of a labourer, artificer, or menial servant;
(2) For the sale of goods or merchandise; or
(3) Where the subject-matter is of less value than £5.

The value of the stamp ordinarily required for an agreement under hand is sixpence and, for a deed, ten shillings; but these two values apply only where special stamp duties are not imposed. Bills of exchange, insurance policies, leases,

I.—SPECIMEN OF DEED.

ORIGINAL OF A LEASE.

This Indenture made the ____________________ day of ____________________ One thousand nine hundred and _____ BETWEEN ___________ A B ___________ of ___________ in the county of ___________ gentleman (*hereinafter called the lessor*) of the one part and _______ C D & Co., LIMITED, whose registered office is situate at _______ _________ in the city of ___________ (*hereinafter called the lessees*) of the other part WITNESSETH as follows—

1. IN consideration of the rent hereinafter reserved and the covenants on the part of the lessees hereinafter contained the lessor doth hereby demise unto the lessees ALL THAT lock-up Shop situate at and numbered ____ TO HOLD the same unto the lessees for the term of ________ years to be computed from ___________ YIELDING AND PAYING therefor during the said term the yearly rent of ______________________ ___________ to be paid by two equal half-yearly payments on the twenty-fifth day of March and on the twenty-ninth day of September in every year, the first of such payments to become due and payable on the twenty-ninth day of September, One thousand nine hundred and ______

2. THE lessees for themselves and their assigns and to the intent that the obligations may continue throughout the term hereby created hereby covenant with the lessor in manner following that is to say—

(1) To pay the rent.

(2) To pay all taxes (other than property tax) and to pay rates.

(3) To keep the premises (except the main walls and timbers roof and outside) in repair.

(4) To paint inside of premises.

(5) To permit the lessor or his agent or workmen to enter and view twice a year.

(6) Not to make alterations.

(7) Not to assign or underlet.

3. PROVIDED ALWAYS and it is hereby declared that if the said yearly rent of ____________ or any part thereof shall be in arrear for the space of twenty-one days ____________ or if there shall be any breach or non-observance of any of the covenants hereinbefore contained ____________ it shall be lawful for the lessor __________ to re-enter and ________ repossess and enjoy as in his first or former estate.

4. AND the lessor hereby covenants with the lessees as follows—

(1) To give the lessees peaceable and quiet possession.

(2) To insure the buildings.

(3) To keep main walls and timbers roof and outside in repair.

5. PROVIDED ALWAYS and it is hereby agreed and declared that if the said shop and premises hereby demised or any part thereof shall ____________ be destroyed or rendered uninhabitable by fire storm or tempest or other inevitable accident and shall not be rebuilt or reinstated by the lessor within six calendar months thereafter then ________ payment of the rent__________ shall____________________ be suspended. . . .

6. AND IT IS DECLARED that where the context allows the expressions "the lessor" and "the lessees" used in these presents include besides the said ____________ A B ____________ his heirs and assigns and besides the said ____________ C D & Co. LIMITED _____ their successors and assigns.

IN WITNESS whereof the lessor has hereunto set his hand and seal and the lessees have caused their common seal to be hereunto affixed the day and year first before written.

Signed scaled and delivered by the above-named A B in the presence of } ________________________ SEAL

____

____

II.—SPECIMEN OF SIMPLE CONTRACT.

AGREEMENT FOR SERVICE.

AGREEMENT made the ______ day of ________ One thousand nine hundred and ______ BETWEEN A B of ________ in the ________ ____,_______ of ____________ Mill Furnisher (*hereinafter called the "principal"*) of the one part and C D of ______________________ (*hereinafter called the "manager"*) of the other part.

WHEREBY IT IS AGREED AS FOLLOWS—

1. The principal shall employ the manager and the latter shall serve the principal as manager of his said business for a period of ____________ from the date hereof but determinable as hereinafter mentioned.

2. The salary of the manager shall be the sum of £___________ per annum payable by equal monthly instalments of £___________ on the last day of every month.

3. The manager shall observe and abide by all the instructions that may be reasonably given by the principal and shall well and faithfully perform all the duties of manager of the business of the principal.

4. The employment of the manager hereunder may at any time be terminated by three months' notice in writing on either side during the said term. Provided always that if the manager shall wilfully neglect or refuse to obey the reasonable instructions of the principal or be otherwise guilty of misconduct or shall through illness or otherwise become incapacitated from performing his duties the principal may at his absolute discretion forthwith terminate the employment or suspend the payment of the said salary during such illness or incapacity.

As WITNESS the hands of the said parties hereto the day and year first above written.

(*Signed*)_________________________________

(*Signed*)_________________________________

Witness of both signatures:

____

transfers of stocks and shares, brokers' contract notes for sale of shares, are all subject to special scales.

The sixpenny stamp on an agreement may be an adhesive one; but in that case it should be affixed and cancelled by the party that signs first. The stamps on the other contracts are usually impressed. Where a stamp is necessary and has been omitted, the document, in some cases, cannot be received as evidence in court until the omission has been made good; and this will involve the payment of a penalty. In other cases (*e.g.*, in bills of exchange) the omission makes the contract void. Two specimens of formal contract are inserted on the three previous pages; one under seal, the other under hand. For the sake of displaying its contents more clearly and concisely, the first specimen has had much of the legal phraseology cut out, particularly in the sub-clauses, each of which has been reduced to a mere indication of its purport.

The "counterpart" of the lease would be an exact copy of the "original," except that it would bear the seal of the lessee company and be signed by two of the company's directors and the secretary, whilst the original is sealed and signed by the lessor.

7. **Agency.** (1) *Who is an Agent.* An agent is a person that acts for another, named his principal, in such a way as to make a contract between the principal and a third party. Auctioneers, stockbrokers, produce brokers, and factors are agents because their business consists of buying and selling (*i.e.*, making contracts) for other persons. Bankers act as agents when they collect or pay cheques for their customers. It is in the capacity of agent that a solicitor acts for his client. Partners are agents for one another in matters connected with the partnership business; and wives are agents for their husbands in buying for the household. Buyers, shopmen, and travellers make purchases and sales as the agents of their employers; but workmen, such as bricklayers, painters, or book-keepers, are not agents, because they do not effect bargains on their masters' behalf with other persons.

(2) *The Agent's Authority.* A person holding himself out as an agent is not an agent if he has no authority to act for his supposed principal. In such circumstances, the contract will not be binding on the person named as principal, for he cannot be held responsible for acts he has not in some way previously authorized or subsequently ratified. The remedy of the other party is an action against the self-constituted agent for the damages suffered. But the agent's authority may easily be implied from the conduct of the principal, as from his leaving a man in apparent charge of a place of business, or from his having allowed a servant to make credit purchases for him on previous occasions. It rests with the other party to satisfy himself that the agent has authority, express or implied, for what he does.

Sometimes, however, an agent is liable on a contract as if he were the principal. This occurs when the agent makes a contract by deed, whether his principal is named in the deed or not. In simple contract, also, it may occur if a principal is not named; or, at least, if the agent fails to let it be understood that he is not acting for himself. Where a person was not known to be contracting as agent, it would be unjust that the other contracting party should be obliged to look, for the completion of the contract, to a principal whose connection with the contract was not disclosed. Still, on discovery of the principal, the other party, if he wishes to exercise it, has the right of abandoning his claim on the agent, and of looking instead to the principal for satisfaction. He must, however, choose one or the other; he cannot look to both.

It follows that when the agent is acting with authority, a disclosed principal is always liable on the contract, and an undisclosed principal may be held liable as soon as he is disclosed. On the other hand, an undisclosed principal may always come forward himself and claim the benefit of the contract; but this is subject to the right of the other party to deduct, from payment to the principal, any debt of the agent, due to the other party, that could have been deducted from payment to the agent.

(3) *Relation of Agent to Principal.* The relationship of the agent and the principal is the subject of a contract between themselves distinct from any made with third parties. The agent must exercise ordinary care at least in the performance of his duties. If he is a paid agent, special skill and diligence may be required of him. An agent must account for all profits made. Secret commissions are illegal; and a person cannot retain profits made by selling shares, or goods, or other property of his own, whilst causing the buyer to believe that he was acting merely as the buyer's agent. Except in special circumstances, an agent has not the power to hand over his authority to a deputy. A *del credere* agent is one who, for a higher commission, guarantees the debts he makes in selling goods on his principal's behalf. A produce broker or a stockbroker, immediately he makes a contract, issues a Bought Note if he is acting for a buyer; a Sold Note if he is acting for a seller. Between a factor and a broker the chief differences are that the former has possession of his principal's goods, and has authority to sell them in his own name, whilst the latter has not.

CHAPTER XXIV

LAW OF SALE AND PAYMENT OF GOODS

1. What are Goods. By the lawyers, property is classified as Real and Personal. Real property, according to them, consists of freehold land and buildings, and of trees and crops attached to the land. Personal property includes: (1) choses (or things) in possession, namely, movable material things, as goods and coin; (2) choses in action, which are rights or claims enforceable at law, as book debts, bills of exchange, stocks and shares, patents. "Goods" are movable material things, such as manufactured articles, commodities dug from the earth, horses and cattle, crops cut or to be cut before sale; but not money.

2. Making a Contract of Sale. A contract of sale may be made in respect of existing goods, or of future goods—in respect, that is, of goods now in the ownership or possession of the seller, or of goods yet to be manufactured or acquired by him. Sometimes a contract is made to sell specific goods which had been lost, without the parties knowing it, before the contract was entered into. In such event the contract is void. "Specific" means that it is the identical articles agreed upon that are bought and sold, not other similar things. To illustrate how goods can be already lost when a contract is made about them, we may instance a quantity of wheat, notified as having been shipped in the ss. *Rollicker* from Baltimore, and since ascertained to have perished at sea; or a certain motor-car left at a certain garage and now discovered to have been destroyed in a recent fire; or a particular horse that the parties knew well, which has died suddenly without their hearing of the untoward event. Where no provision about price is contained in a contract, the price charged must be reasonable.

Sections 2 to 7 of this chapter are based on the *Sale of Goods Act*, 1893. One of the provisions of the Act is that

a contract for the sale of any goods of the value of £10 or upwards shall not be enforceable by action—

(1) Unless the buyer has "accepted" the goods by doing in relation to them some act which recognizes the contract, and the goods have been received by him; or

(2) Unless he has given something to bind the bargain, or has made part payment; or

(3) Unless some note of the material points of the contract has been written and been signed by the party to be charged or his agent.

From this it follows that, when goods of the value named have been ordered orally, the buyer may return them on or after delivery, and cannot be charged with them, provided none of the conditions above has been complied with. If the buyer offered the goods for re-sale, that would be an act which recognized the existence of his contract to buy them, and it would make him liable to pay for them. When a contract is entered into for valuable goods to be supplied at a future date, the seller should see that he obtains the buyer's order in writing, and the buyer that he gets the seller's written confirmation. One party may possess written evidence and the other not. Whichever party is short of the necessary writing and signature, will not be able to enforce his rights should occasion for doing so arise.

3. **Conditions and Warranties.** In a contract, whether for the sale of goods or not, a *condition* is a term which is of the essence of the contract. A stipulation in a contract ranks as a condition, if its absence or failure would render the contract useless to one of the parties—if without consent to the stipulation by one party, the other would not have made the bargain. A condition may be express or implied, and breach of the condition makes the contract voidable by the party aggrieved. Any kind of stipulation may be made a condition by expressing it as such. Examples—

(1) In the purchase of a business—"Subject to the condition of approval by A, B hereby agrees to buy and C to sell the business of so and so."

(2) In the engagement of a comedian—"If Z fails to carry out strictly Clause 10 of this agreement, Y shall be at liberty to cancel the engagement."

(3) In a sale of pig-iron—"Time of delivery is of the essence of the contract."

A *warranty* is some stipulation which is not essential, but only collateral, to the main purpose of a contract. The breach of a warranty gives a right to claim damages; but not to repudiate or set aside the bargain. For example, if I bought a bicycle "warranted good for twelve months," and it broke down at the end of three months, I should be entitled to have the machine put into good running order free of charge. The breakdown would give me no right to reject the bicycle, nor, if I had not yet paid for its purchase, would it give me the right to withhold the price. Though breach of a condition by the seller gives the buyer the power to set the contract aside entirely, yet the buyer is always free to waive his full rights, to treat the breach of condition as a breach of warranty, and to proceed with the contract on that basis. And, as the names, condition and warranty, are often confused, it is of less importance which name the parties give to a stipulation than what their evident intention is regarding its effect.

As a general rule of law, a buyer must be on his guard; it is his own fault if he suffers through failure to exercise ordinary prudence and foresight in the making of his purchases. Nevertheless, in a contract for the sale of goods, unless a different intention appears, there are—

(1) An implied condition that the seller has the right to sell;

(2) An implied warranty that the goods shall be free from any undisclosed charge in favour of a third person;

(3) An implied condition that goods sold by description shall correspond to the description; and, when they are sold by description and sample, they must correspond to the description as well as to the sample;

(4) An implied condition that goods bought by description and without examination shall be of good merchantable quality (G. M. Q.);

(5) An implied condition that goods shall be reasonably fit for their particular purpose, if the circumstances show that the buyer relies on the seller to supply goods fit for that purpose;

(6) An implied condition that, in goods sold by sample, the bulk correspond to the sample in quality and be free from any defect rendering them unmerchantable which was not apparent in the sample.

4. **When Title Passes.** Another general rule of law is that a buyer cannot acquire a good title to goods sold by a person

who is not the owner, or who has not the owner's authority to sell. The ownership of goods that have been stolen and sold reverts, on conviction of the thief, to the person whose property they were at the time of theft. Subsequent dealings do not count. But this rule does not apply to a case of fraud not amounting to theft, as where the goods are obtained in exchange for a worthless cheque.

It is important to know at what time exactly the ownership of goods is transferred from the seller to the buyer, because the risk of destruction by fire, of loss at sea, or of damage in other ways, passes to the buyer as soon as the ownership vests in him. It is then for him to see to their insurance, if he considers insurance desirable. The rules as to when the property in goods passes from seller to buyer are as below, unless a different intention appears in the contract, or circumstances suggest it—and "property," in this use of the term, means ownership as distinct from possession of the goods—

(1) For specific goods ready for delivery (as a given twenty bales of Egyptian cotton, lying in a warehouse at the Manchester docks), the property passes to the buyer when the contract is made, whether delivery or payment or both be postponed or not.

(2) For specific goods not ready for delivery (as when a second-hand motor wagon is first to be overhauled and re-painted), the property does not pass until the goods are ready and the buyer notified that they are ready.

(3) For specific goods ready for delivery but requiring to be weighed or measured by the seller, so that he can ascertain the price (as in an order for so many pounds of sugar, or so many yards of silk, to be supplied from a wholesaler's stock), the property does not pass until the goods are weighed or measured and the buyer notified.

(4) For goods delivered "on approval," or "on sale or return," the property passes to the buyer when he signifies acceptance of the goods, or when the time fixed for return elapses, or on the expiration of a reasonable time.

(5) For unascertained or future goods, the property passes when goods of the description required are unconditionally appropriated to the contract; *e.g.*, when the seller, without reserving the right of disposal, hands to a carrier, for conveyance to the buyer goods corresponding to the buyer's order.

Although possession of the goods has passed out of the seller's hands, he can retain the right of disposal of them

until conditions stipulated in his contract have been fulfilled. The drawing of bills of lading to order of the consignor is one way of reserving to him the right of disposal of goods. Endorsement and delivery to another person of a bill of lading drawn to order, or delivery without endorsement if the Bill of lading is drawn to bearer, transfers to that person the property in the goods represented by the bill of lading. The Factors Act, 1889, makes some exception to the general rule, with which this section opened. By that Act, when goods or documents of title to goods (*e.g.*, bills of lading, dock or warehouse warrants) are, with the owner's consent, in the hands of an agent, any sale or pledge of the goods, if made by the agent in the ordinary course of his business, shall be just as valid as if the owner had expressly authorized it; but the person taking the goods must act in good faith and without knowledge of want of authority on the agent's part.

5. **Delivery.** Unless he has agreed to do so, the seller need not deliver the goods until he receives payment, for, in the absence of agreement to the contrary, payment and delivery are concurrent duties; they are to be made at the same time, the one in exchange for the other. Delivery does not include transit, and it depends on the agreement, express or implied, between the parties whether the buyer has to fetch the goods or the seller has to send them. If there is nothing arranged on this point, the place of delivery is either the seller's establishment, or the place where, to the buyer's knowledge, the goods are lying ready when he buys them. Should time of delivery not be fixed, demand or tender of delivery must be made within a reasonable time, and at a reasonable hour of the day.

Even when the seller is not obliged by the terms of the contract to undertake the sending of the goods at his own risk, he may still send them at the buyer's risk, by the express or implied request of the buyer. In that case the seller's delivery of the goods to a railway or to another carrier is presumed to be delivery to the buyer. If the

goods have to cross the sea in circumstances in which insurance is usual, the seller must give the buyer notice to enable him to insure them; or, failing notice, the seller must take the risk himself.

As to delivery of wrong quantity: (1) If it is a quantity less than that ordered, the buyer may reject the goods, or he may accept them and pay at the contract rate. (2) If it is a larger quantity than ordered, he may reject the whole, or take the quantity ordered and reject the rest, or accept the whole and pay at the contract rate. (3) If the goods ordered are delivered mixed with others not ordered, he may reject the whole, or he may accept those ordered and reject the others. Unless otherwise agreed, the buyer is not bound to accept delivery by instalments. Until he has had an opportunity of examining goods delivered, he is not deemed to have accepted them. He accepts them when he says he accepts, or when he does any act in relation to them inconsistent with their being still the property of the seller, or if he fails to reject them within a reasonable time.

6. Breach and Damages. (1) *Seller's Remedies.* If the contract is broken by the buyer's failure to pay for the goods, the seller may maintain an action for the price. If there is a failure to accept the goods, the seller may bring an action for damages for non-acceptance.

(2) *Buyer's Remedies.* Should the seller fail to give delivery of the goods, the buyer's remedy is an action for damages for non-delivery. Specific performance (*i.e.*, delivery of the identical article contracted for) might be ordered by a court; but this is not usual with merchandise, and would occur only when the subject of contract had a value peculiarly its own, as a masterpiece of painting or sculpture; or as a piece of land, because of its special situation. In the case where failure amounts to a breach of warranty, the buyer may deduct the damages from the contract price, or he may bring an action to recover them.

(3) *Damages.* The measure of the damages is the estimated loss directly and naturally resulting in the ordinary

course of events from the breach of the contract. This loss is presumed to be the difference between the contract price of the goods and the market price for buying or selling the same quantity of the same kind of goods at the time when they should have been delivered or accepted.

(4) *Delivery by Instalments.* Where delivery is to be made by instalments to be paid for separately, and the seller fails to deliver one or more instalments, or the buyer to accept or to pay for one or more instalments, it is a question depending on the terms and the circumstances of the particular case, whether the breach is one that entitles the injured party to repudiate the contract, or one that gives rise to a claim for damages only.

7. Rights of Unpaid Seller. Notwithstanding that the property in goods may have passed to the buyer, an unpaid seller of goods has—

(1) A lien on the goods for the price, that is, a right to retain possession of them until paid, if the goods were sold without stipulation for credit, or if the buyer has become insolvent;

(2) A right to stop goods in transit if the buyer of them has become insolvent, it being the duty of the carrier, on receiving notice of stoppage in transit, to re-deliver the goods to the seller;

(3) A limited right to re-sell the goods, which may be exercised when the goods are of a perishable nature, or when the buyer does not pay within a reasonable time of his being notified of the seller's intention to re-sell.

8. Payment. It is the *debtor's duty to bring or send payment*, when the creditor has made demand. If the money is sent by post, the risk of loss is the debtor's, unless the creditor has asked him to send it by post. And the fact that the creditor never objected to previous remittances by post will not be construed as a request for future payments to be made in that way, though other circumstances may—*e.g.*, a foot-note on a statement of account: "Please send cheque by return."

Tender of Payment consists of producing and actually offering the money even in case of dispute. If the amount is disputed and refused, the debtor must remain ready to pay; and if an action is begun, he should pay into court the

amount previously tendered, in order to prevent costs being given against him. A creditor may always refuse payment on the ground that it is not in the legal form. "Legal tender" takes the form of bronze coins up to 1s. in amount, silver coins up to 40s., and gold coins up to any amount. Bank of England notes (except when they are offered by the Bank or its branches), or currency notes of the Treasury, are legal tender up to any amount. No change can be demanded. Cheques, bills of exchange, and country bank notes are valid tender, unless they are refused at the time and legal tender demanded instead.

From 1st Sept., 1920, every *receipt given for* £2 or upwards must bear a 2d. Revenue stamp. For omitting the stamp, a penalty not exceeding £10 may be imposed. The giver is liable in any case, and the holder of the receipt cannot use it in court as evidence of payment until it has been stamped and the fine paid. Insufficient payment, though made "in full settlement," may be retained without prejudice to one's claim for the balance, provided the receipt is given "on account," or "in part payment only."

9. **Statute-barred Debts.** By the Statute of Limitations, 1623, as modified by more recent enactments, no action can be brought for a debt due on *simple contract* if six years have elapsed since the time when payment could be demanded. For *deeds*, other than those in connection with land, the time is twenty years. The right of action will be revived, however,

(*a*) By a payment either of part principal or of interest; or

(*b*) If the debtor has given a signed promise to pay, or a signed acknowledgment such that a definite promise to pay may be interred from it.

Then the six years begin to run anew from the date of the payment or promise. The rule does not operate during the time that a debtor is an infant or insane; and if he was beyond the seas when the amount became due, the six years count from his return.

In view of the above, the rules for appropriation of payments are important. These are—

(1) That where a debtor owes more than one amount, he has the right at the time of making a payment to insist on the payment being appropriated to any item or items he chooses;

(2) That failing appropriation, express or implied, by the debtor, the creditor may set the payment against any of the amounts owing;

(3) That, where no appropriation is made by debtor or creditor, discharge of the items is presumed to run in order of date beginning with the earliest.

10. Interest on Accounts cannot be charged to the debtor except in certain circumstances, some of which are as follow—

(*a*) By agreement between the parties;

(*b*) By usage of trade (*e.g.*, in banking accounts);

(*c*) On a dishonoured bill or cheque, by the Bills of Exchange Act, 1882, Section 57;

(*d*) On an overdue account from the date when demand is made and notice given that interest will be charged.

Compound interest can never be charged except by agreement. Although a creditor may not be able legally to insist on payment of interest, that does not prevent him from refusing to allow discount on an overdue account.

CHAPTER XXV

CARRIAGE BY LAND AND SEA

1. **Carriage by Land.** (1) *The Railways and their Competitors.* Chief of inland carriers are the railways; but under this head may also be included the barge owners that traffic on the canals and river navigations. The lines of coasting steamships may be included too—for example, those sailing between Newcastle and London, London and Bristol, Glasgow and Liverpool—because they also are competitors of the railways. These vessels take goods of many kinds, when quick delivery is not essential, and carry them at lower charges than the railways can afford to make. Canal traffic consists largely of coal and minerals generally; but other merchandise is transported as well; earthenware, for example, from the Potteries. Many of the canals of this country have been under the control of the railway companies, and have, therefore, not been developed, as in other circumstances they might, into competitors of railways, for carrying goods when speed of transit was not of first importance. Development has been hindered also by the difficulty of communication between different canal systems, so that they are not, as a whole, suitable for long-distance traffic. In 1909 a Royal Commission recommended that all the waterways should be placed under the management of a Waterway Board; and that existing channels should be deepened. Still, nothing has been done. The railways, however, have been reorganized by Parliament. From 1st January, 1923, all in Great Britain, except the London undergrounds, have been grouped into four big companies, each serving, as far as possible, its own section of the country. State control during the war, accompanied by a rapid increase in wages and the consequent need of the most economical and efficient methods of working, had made this policy a necessity. Here is perhaps the best place to

notice that railway steamship-services are maintained to Ireland—as between Holyhead and Dublin, Fishguard and Rosslare, Fleetwood and Belfast; that similar services have been in operation for a long time from Harwich and Grimsby to the Continent; and that packet-boats are run jointly with the French railways between the Channel ports of England and France.

The plan, so far as there is a plan, of the railway system of England, can best be grasped by the mind if the many main lines are pictured as radiating from London in all directions to the cities and towns of the provinces. A few important cross-country routes, as Derby to Birmingham and Bristol, Manchester to Leeds and York, must not be overlooked. The longer trunk lines are, of course, those that run north and west from London, the three chief northerly routes connecting at Carlisle and Berwick with the Scottish lines, which otherwise form a smaller system in themselves. The Irish railway system is, of necessity, entirely apart.

Railway services fall naturally into the two divisions of passenger train and goods train traffic. Passenger train traffic includes a parcels service, and with this there should be classed the fast trains specially provided for fish and perishable produce. Competing with the railways, and yet making use of them, are the Post Office and the parcels-carrying companies. The Post Office uses the railways for moving its parcels in bulk between stations only, whilst it collects and delivers the parcels singly itself. The parcels companies, such as "Sutton" and "Globe," use the railways in the same way as the Post Office for sending parcels in bulk, and therefore at the lowest railway rates, between towns in which they have offices. Where they cannot do this, they act simply as collectors for the railways, and retain the collecting fees. A peculiarity of the parcels post is that, for parcels of the same weight, the charges are the same for any distance within the British Isles. Post Office rates for inland parcels vary only with the weight; but the railways and the parcels companies charge according to distance as

well as weight. For foreign parcels sent by post, the rates are, however, different for different countries, as are those of the Express companies that take parcels for Continental

GOODS AND MINERALS.

Midland Railway—Maximum Rates for Conveyance.[1]

In respect of merchandise comprised in classes.	For the first 20 miles or any part of such distance	For the next 30 miles or any part of such distance.	For the next 50 miles or any part of such distance.	For the remainder of the distance.
	Per ton per mile. *d.*	Per ton per mile. *d.*	Per ton per mile *d.*	Per ton per mile. *d.*
A . . .	1·15	0·90	0·45	0·40
B . . .	1·25	1·00	0·80	0·50
C . . .	1·80	1·50	1·20	0·70
1 . . .	2·20	1·85	1·40	1·00
2 . . .	2·65	2·30	1·80	1·50
3 . . .	3·10	2·65	2·00	1·80
4 . . .	3·60	3·15	2·50	2·20
5 . . .	4·30	3·70	3·25	2·50

Maximum Terminals—Applicable to all Railways.

In respect of merchandise comprised in classes.	Station Terminal at each end.	SERVICE TERMINALS.			
		Loading.	Unloading.	Covering.	Uncovering.
	Per ton. *s. d.*	Per ton. *s. d.*	Per ton. *s. d.*	Per ton. *d.*	Per ton. *d.*
A . . .	– 3	—	—	—	—
B . . .	– 6	—	—	—	—
C . . .	1 –	– 3	3	1	1
1 . . .	1 6	– 5	– 5	1·50	1·50
2 . . .	1 6	– 8	– 8	2	2
3 . . .	1 6	1 –	1 –	2	2
4 . . .	1 6	1 4	1 4	3	3
5 . . .	1 6	1 8	1 8	4	4

and other addresses, and forward them through agencies they have established in foreign ports and centres. Other competitors of the railways are tramways for suburban traffic, and local carriers for the districts surrounding the

[1] These rates were increased in January, 1920.

larger towns. Since the advent of the motor wagon, an increasing volume of heavy merchandise is being transported for long distances by road.

(2) *Railway Rates* are controlled to a great extent by Act of Parliament; and *An Analysis of the Railway Rates and Charges Order Confirmation Acts*, 1891 *and* 1892, published by His Majesty's Stationery Office, is the source from which much of the information under this head is taken. Traffic is divided into six general kinds, namely, (1) Goods and minerals; (2) animals; (3) carriages; (4) exceptional class for articles of unusual size or nature, as locomotive engines, wild beasts, dangerous goods, and bullion; (5) perishable merchandise by passenger train; (6) small parcels by merchandise train. For each of these divisions, No. 4 excepted, maximum rates of charges are fixed by law. The first division, goods and minerals, is sub-divided into eight classes, named A, B, C, 1, 2, 3, 4, and 5. The publication referred to contains a long list of articles that is known as the "classification," and that shows to which of the eight classes each article belongs. For each of these eight classes, maximum rates are prescribed for each railway. The table on page 350 applies to the Midland section of the L. M. & S. Railway.

It will be seen that the rate for goods of a given class to be carried a given distance is ordinarily made up of two main charges—one for conveyance and one for terminals; and that each of these may comprise several parts, which, as set out in the table, explain themselves. Class A takes the lowest grade of traffic; Class 5 the highest; and the intervening classes take corresponding grades. Some idea of the kind of goods put in each class may be gathered from the following examples—

Class A—Sand, coal, iron ore.
,, *B*—Common bricks, common slates, pig-iron.
,, *C*—Glazed bricks, grain, potatoes, iron or steel plates.
,, 1—Raw cotton in bales, common glass bottles, oils in casks, packing paper, soap.
,, 2—Raw wool, paints in casks, coffee, butter in casks, biscuits, earthenware in crates.

Class 3—Heavy drapery as cotton, linen, or woollen goods in bales or cases; boots and shoes in cases; hardware, mixed groceries, tea.
,, 4—Light drapery, umbrellas, felt hats, typewriters fitted and packed, dead poultry.
,, 5—Bicycles, gramophones, furniture not in vans, straw hats, live poultry.

Quantities of less than 4 tons and not less than 2 tons in Classes A and B are charged under the next higher class; whilst quantities of less than 2 tons in A and B are charged under the next higher class but one; and lots of less than 2 tons in C, under Class 1. Consignments not exceeding 3 cwt. come under the special division of "Small Parcels by Merchandise Train" already referred to, and are subject to an addition to the maxima named above; whilst the minimum is the charge for 28 lb. In charging for "smalls," a fraction of 14 lb. may be taken as 14 lb. When a consignment exceeds 3 cwt., a fraction of a $\frac{1}{4}$ cwt. may be charged for as a $\frac{1}{4}$ cwt., unless the consignment exceeds 5 tons, when any fraction less than a $\frac{1}{4}$ ton may be charged as $\frac{1}{4}$ ton. A consignment weighing 4 cwt. 3 qr. 7 lb. would therefore be charged as 5 cwt. When the rate covers delivery from any station, the service of delivery is confined within prescribed limits; and should the railway deliver by request beyond these limits, it is entitled to charge more. Delay in loading or unloading, and consequent detention of wagons, leads to another extra charge termed "demurrage." This applies particularly to Classes A and B, which are usually loaded and unloaded by the merchants themselves. For coal and similar traffic, traders commonly provide their own railway trucks; but for other traffic the rolling stock belonging to the railways is nearly always used.

Quite frequently the *actual rates in operation* are less than the maximum charges allowed by statute. Competition with other railways, or with water routes, has caused lower charges to be made. Then, if goods are handed to a railway in large quantities, particularly if they are forthcoming regularly or continuously, *special rates* may be given, because large

quantities cost less proportionately to handle than small lots. Another consideration in the fixing of rates is the nature of the goods. Those that are costly, or easily damaged or lost, are charged more to compensate for the extra risk, and for the extra care that must be expended upon them. Further, as between goods of higher and lower values, there is a rule applied "to charge what the traffic will bear." This means that a fairly high rate for the carriage of valuable goods causes little proportionate increase in their cost to the purchaser; whereas the same rate applied to goods of low value would make the price prohibitive. When a high charge for carriage was added to the purchase cost, such goods would be too dear for sale, and, as a consequence, such traffic would never be offered to the railway at all. It is partly on this principle that the maximum rates for each class have been fixed, the goods of lowest grade being carried at the least profitable rates. At each station, lists must be kept of all rates there in force, and they must be open for inspection by the public free of charge. Moreover, a trader may always apply to the Railway and Canal Commission for as good treatment as another trader gets who uses the railway in like circumstances. And the same right of appeal is allowed to different towns similarly situated in relation to a common trading or shipping centre.

Railways charge *through rates* for traffic conveyed over the lines of two or more companies that have connections. In the calculation of these through rates, the different companies are not considered as one railway; therefore the maximum rates of the table on page 350 for the first 20 miles, the next 30 miles and so on, apply to each company separately. But, should two railways together be competing with a single company between given points, the lower maximum rate of the single company would keep down the rate that the competing lines could charge. Where traffic in either passengers or goods passes over more than one company's rails, returns are sent to the *Railway Clearing House* in London from the despatching and receiving stations, and this

institution apportions to each company the share of the charges to which it is entitled by law, or by agreement between the companies concerned.

The Railways Act, 1921, however, has provided for the establishment of a Railway Rates Tribunal to revise and standardize railway rates. These will apply on the "appointed day," yet to be determined.

2. The Law of Carriage. (1) *At Common Law.* A person or company that for payment follows the business of carrying goods regularly between certain places, taking the goods of anyone who offers them, is termed a *common carrier*; that is, a carrier common to all who use his services. He is distinguished from a private carrier by his being prohibited from refusing traffic unless his conveyance is full, or the goods are dangerous, or not of the kind he professes to convey. A furniture remover or a team-owner, who does not ply regularly between certain points, and who makes special arrangements for each job he undertakes, is not a common carrier. Nor is any person or company subject to the duties and liabilities of the common carrier for the service of conveying passengers, though the same person or company may be a common carrier of goods. A private carrier is not liable for loss or damage when it is caused otherwise than by the negligence of himself or his servants, unless he expressly agrees to the heavier responsibility. The Post Office as carrier of letters and parcels works under regulations of its own. It holds a monopoly of the carrying of letters. For loss of the contents of registered letters, or for loss or damage to parcels, it sets limits to the compensation it will pay; and, when it makes such compensation, it does so, not as a legal duty, but only as an "act of grace."

The type of common carrier by land in bygone days was he who drove his creaking wagon and plodding horses over the bad roads that separated his own district from the bigger trading centre on which his customers depended for the supply or disposal of their goods. He was subject to the perils of the highway in the dark of night, and to its only less

dangerous loneliness or wildness in the light of day. It was for such as he that the law of the carrier was first evolved, imposing upon him liabilities so heavy as to force him into taking safeguards sufficient to protect the goods in his care from plunder and loss on the road. His liability at common law for theft, or loss, or damage, *due to any cause*, whether through fault of his own or not, and including the results of unreasonable delay, was modified only by three exceptions, namely, (*a*) the "act of God," (*b*) the King's enemies, and (*c*) "inherent vice" in the things carried.

Act of God, or *vis major*, includes any violent or sudden accident due to natural forces, as distinct from the action of man, and such that the carrier could not be expected to foresee the event and provide against it. Examples would be damage by lightning or by impetuous flood, or due to sudden illness of the person in charge of the goods. *King's enemies* refers to the actions of a foreign foe, and does not include the depredations of rebels and pirates. By *inherent vice* is covered any defect in the things carried, or in their packing, which was not obvious when the carrier received them, and which turns out to be the direct cause of loss. Such would be decay or any similar process at work in the goods themselves; the unmanageable spirit of a horse resulting in its own hurt during transit; delicacy or fragility of articles received packed up; or even faulty addressing of the goods. It is the duty of the sender to warn the carrier when extra care is needed. If the packing is obviously defective, or the goods are not such that the carrier can take them without unusual risk, he is entitled to refuse them, or to make it a condition of his carrying them that the sender shall bear the risk of loss himself. For results of any of the three exceptions named, the carrier is not responsible, provided that he takes reasonable precaution to evade such loss.

(2) *By Act of Parliament.* After the establishment of canals, and when the first railways had just been built, the *Carriers Act of* 1830, applicable only to carriers by land and only to common carriers, modified their liabilities still further.

That Act, which remains in force, has reference to specified kinds of goods, chiefly the following—

Bank notes and cheques; gold, silver, jewellery, and precious stones; deeds and securities; pictures, maps, and writings; watches and clocks; glass and china; furs, silks, and hand-made lace.

Most of these are costly articles, and those that are not so now were worth much more one hundred years ago than they are to-day. Many of them, too, carry high value in small compass, and are therefore more subject to theft than bulky merchandise. To preserve his right of claim for loss, a sender of such goods, when the parcel is worth more than £10, must declare their nature and value at the time of handing them to the carrier, and the latter is permitted to make an extra charge for their conveyance. Nevertheless, the liabilities of carriers were still onerous. The railway companies, therefore, as time went on, endeavoured to contract themselves out of many of their responsibilities, alike on goods of which they held themselves out to be common carriers, and on those of which they did not. By reason of this practice, it was laid down in the *Railway and Canal Traffic Act of* 1854 that any special contract to limit the liability of a railway company shall not be valid, unless the special contract is in writing and signed by the consignor or his agent, and unless the terms are " just and reasonable." The interpretation of this last phrase depends on the facts of each particular case. It has been held, however, that no contract is good which would relieve the railway company of all responsibility, and particularly of the consequences of gross negligence or misconduct on the part of its servants.

(3) *Further Points.* For a contract that limits the liability of a railway company, some consideration must be given; and this commonly takes the form of a reduction in the charge for carriage. Many goods are carried under such special signed contracts at ***owner's risk*** instead of ***company's risk***, and at much less than the ordinary rates in force. A carrier's liability begins when the goods are handed to him, and continues until they are delivered to the consignee.

If the carrier is not required or is unable to deliver them, he holds them at the disposal of the owner; and, at the expiration of a reasonable time, say, in a day or two after transit is completed, his liability becomes one for negligence only. A sender's right to stop goods in transit, and to require their re-direction, has been noticed in the last chapter. Every carrier has the right to demand payment when the goods are accepted by him. If they are taken "carriage forward," he has a lien on them for his charges. But the lien is a particular lien and not a general one—he cannot hold back one lot of goods because the carriage of a previous lot is still owing to him. On delivery, the carrier takes a receipt from the consignee; and, if any package is not in good condition on delivery, the receipt should say so. Also, when goods are handed to a carrier, the sender should see that he gets the carrier's or his servant's signature for them. For traffic by goods train, the sender is required to fill in the railway's own forms of consignment note.

3. **Carriage by Sea.** Since the close of the seventeenth century, Britannia has occupied the proud position of "mistress of the sea"; and the ships of this small island-country have taken the predominant part in the ocean commerce of the world. Of the ocean routes used by British shipping, the chief are these—

(i) *Across the Atlantic* to Canada and the northern ports of the United States; to the West Indies and the cotton ports of the Southern States; to Brazil, Argentina, and other parts of South America.

(ii) *Through the Mediterranean* to Egypt, and by way of the Suez Canal to India, the Straits Settlements, China and Japan, or to Australia and New Zealand.

(iii) *Round the Cape of Good Hope*, calling at Cape Town and other South African seaports, or onward to Australasia again.

Liverpool maintains an extensive trade with the West Coast of Africa. To San Francisco, Valparaiso, and other places on the Pacific sea-board, the Panama Canal now makes possible a much shorter passage than formerly from this country, as well as from the eastern ports of the United

States. On routes across the Pacific Ocean, Vancouver competes with San Francisco, and Canadian vessels sail regularly to Yokohama and to Sydney. The "liners"—ships that steam regularly to and from fixed points in distant lands—may appeal to the imagination most, perhaps, because they are always well advertised and usually well fitted out for passenger traffic. But the bulk of ocean-carried goods is conveyed in "tramps"—steamships and sailing vessels, frequently chartered for full loads, and moving about from port to port and country to country under telegraphed instructions, in search of cargo wherever it can be found. Every ship that flies the British flag must be registered at a British port, and must carry a certificate of registration, showing what are the port of registry, the name of the vessel, her tonnage and who are her owners.

4. **The Law of Freight.** *Freight* is the name given to the charge made for carrying goods by ship; and the agreement under which the goods are carried is termed a *contract of affreightment.* A shipowner or shipping company that comes under the definition of a common carrier would be subject to the heavy liabilities of the common carrier for loss due to any cause other than the act of God, the King's enemies, or inherent vice in the goods. But, just as the land-carrier's liabilities have been modified by statute, so the sea-carrier's are lightened by the Merchant Shipping Act of 1894. He, too, even more than any railway company, enters into special contracts with his customers, to relieve him of responsibilities he would otherwise have to bear. By the *Merchant Shipping Act*, the shipowner is not liable—

(*a*) For loss or damage by fire caused without his fault or privity;

(*b*) For theft of gold, silver, precious stones, jewellery, and watches, unless their nature and value have been declared in writing;

(*c*) For loss due to the fault of a pilot whose employment is compulsory;

(*d*) For loss of or damage to goods and to other vessels, beyond £8 for each ton of the tonnage of his ship; and for loss of life or personal injury, beyond £15 the ton.

Any special contract further to limit a sea-carrier's liability

is set out either in the document known as a charter party, or in a bill of lading. (But *see* note, p. 361.)

(1) *A Charter Party* is a written contract whereby the owner agrees to place his ship, or a part of it, at the disposal of a charterer or hirer of the ship, either for a stipulated time or for a specified voyage, the charterer agreeing to pay a certain freight on the cargo to be carried. Commonly the vessel remains in possession of the owner and is simply used by him in the service of the charterer; but in other cases the ship passes into the charterer's control, and the captain becomes agent of the charterer instead of agent of the owner. In a charter party, unless the contrary appear, there are three implied warranties, namely, (*a*) seaworthiness, (*b*) despatch, (*c*) non-deviation. *Seaworthiness* refers to the condition of the ship and its outfit for the purpose of the voyage contemplated; but only at the time of setting out. It does not mean that the ship shall continue to be seaworthy throughout the voyage. *Despatch*, as an implied warranty, requires that the voyage shall be begun and completed without unreasonable delay. *Non-deviation* means that the ship has not to be navigated out of the usual course, and thereby exposed to extra risks, unless deviation from the usual course is justified by necessity. "Lay-days," in a charter party, is a name given to the time allowed for loading or unloading; and "demurrage" signifies the charge to be made for exceeding the number of lay-days allowed. A charter party should bear a sixpenny revenue stamp.

(2) *A Bill of Lading* may be used as between the owner and the charterer, in addition to the charter party. If so, it serves merely as a receipt from the master of the ship for the cargo that the charterer has put on board. A ship used to carry the goods of anyone who offers them is called a "general ship." In that case, a bill of lading for each consignment is given either by the owner, if he is running the ship himself; or by the charterer, when the ship has been hired. The purpose of a bill of lading, as also the place and purpose of a mate's receipt, is referred to in Chapter XIII,

SOUTH & EAST AFRICAN

ROYAL MAIL SERVICE

The Union-Castle Mail Steamship Company, Ltd.

HEAD OFFICES:
3 & 4 FENCHURCH STREET,
LONDON, E.C.3.

BILL OF LADING.

Shipped in good order and condition by

on board the STEAMSHIP "*Walmer Castle*"

whereof is Master, now lying at LONDON,

Packages Merchandise,

being marked and numbered as per margin, to be delivered subject to the exceptions and conditions enumerated below in like good order and condition at or off CAPE TOWN, unto or to his or their Assigns. Freight, Primage and Charges payable on shipment, ship *lost or not lost*; the ship retaining a lien on the Goods for all Freight, Primage and Charges until paid, whenever and wherever payable; average as per York-Antwerp rules, 1890, and charges as accustomed.

IN WITNESS whereof the Master or Agent of the said Vessel hath affirmed to three Bills of Lading, all of this tenor and date, one of which being accomplished, the others to stand void.

Dated at LONDON, this day of 19

The following are the exceptions and conditions referred to above—

1.—*The Company are not liable for, or for the consequences of, the Act of God, the King's Enemies, Pirates, Robbers or Thieves by Sea or Land, whether in the service of the Company or not, Restraint of Princes, Rulers and People, Vermin, Jettison, Barratry, Fire on Board, in Hulk or Craft, or on Shore, or any accidents, loss or damage whatsoever arising from Explosion, Collision, Heat, Machinery, Boilers, Coal dust, Fuel, and Steam, and Steam Navigation, or from Perils of the Sea or of Land or Rivers, of whatever nature or kind soever, or from Strikes, Lock-outs, Trade Disputes, or Labour Disturbances or from any act, neglect, or default whatsoever, of the Pilot, Master, Officers, Crew, Engineers, Stokers, or any Agent or Servant of the Company, or any person or persons in providing, despatching and navigating the Vessel, or otherwise, or from detention, delay, or deviation, however caused.*

2.—*It is expressly declared that the Company are not liable for loss or damage occasioned by any defects whatsoever in the Hull, Machinery or equipment of this Vessel or of any other vessel or vessels to which the goods may be transferred under this Bill of Lading, whether said defects existed before the commencement of, or arose or developed during the voyage, provided that reasonable diligence has been used to ensure the vessel or vessels at starting being seaworthy and fit for the carriage of the goods.*

3.—*The Company are not responsible for any detention, deviation or non-delivery consequent upon the terms or conditions of any Postal, Transport, or other Special Service Contract which may for the time being be entered into by the Company*

4.—*Liberty is reserved to tranship or land and re-ship the said goods into any other Steamer or Sailing Vessel at the Company's expense and at Merchant's risk, also, to proceed to or call at any Port or Ports, place or places, either in or out of the course of the voyage either backwards or forwards, for any purpose or at any time whatsoever and to sail with or without Pilots, and to tow and assist vessels in all situations.*

5.—*Weight, Contents, Value, Marks and Numbers unknown, and the Company are not responsible for inaccurate description of Goods shipped, or for Drainage, Leakage, Breakage, Rust, Sweat, Decay, Putrefaction, Destruction by Vermin, or any loss or damage arising from the nature of the goods, or from contact with or proximity to other goods; nor for damage on shore, or any loss or damage caused by prolongation of the voyage. All perishable articles are carried at Shipper's risk. Fruit and other perishable articles may be carried on deck when practicable, but wherever stowed are carried at Shipper's risk.*

6.—*The Company will not be responsible for due delivery unless each package is distinctly marked with the name of the Port for which it is destined, nor for any loss or damage arising from defective packing or inadequate protection, or from insufficiency of Address or obliteration or absence of Marks or Numbers.*

7.—*In the event of Quarantine being imposed at any Port, or of the existence of Infectious Disease or any other cause likely, in the judgment of the Master, to detain the Steamer, or to interfere with the due performance by the Steamer of any Postal, Transport, or other Special Service Contract entered into by the Company, the Goods may be discharged into any Vessel, Lighter, Craft, or Depot, or at next Port of call, and any such discharge shall be considered a final delivery of the Goods under this Bill of Lading.*

8.—*The Master shall be at liberty, although not bound, to commence or proceed with the discharge of cargo at all times and in all circumstances Immediate delivery of the cargo shall be taken from the steamer as it comes to hand; any failure to do so shall render the Consignee liable for all expenses consequent on such failure, and the Goods may be conveyed to any other port or place, and shall be at Merchant's risk from the time when delivery should have been taken. If, in the judgment of the Master, the prevalence of bad weather, or any other impediment, renders communication with the shore or the immediate discharge of Cargo unadvisable or impracticable, the Goods may be conveyed to any Port or place, Ports or places, and brought back by the Steamer or any other ship or conveyance to the Port of destination or transhipment, and if any such impediment as aforesaid then renders the immediate discharge of the goods unadvisable or impracticable they may be conveyed to and landed at any other Port, at the Merchant's risk throughout, and any such discharge shall be considered a final delivery of the Goods under this Bill of Lading. The Company will not under any circumstances be liable for delay or loss arising through over-carrying.*

9.—*At all Ports and places of delivery the Goods may be delivered, into craft or otherwise, to the Harbour Board or other Port Authority or their Agents, according to the rule or custom of the Port, or they may be landed, lightered, or put into Receiving Ship, Hulk or Warehouse by the Company or by Agents nominated by the Company. All lighterage, landing, warehousing, or other expenses after the Goods leave the Steamer's deck shall be payable by the Consignee unless otherwise arranged at time of shipment, and in every case the liability of the Company shall cease and the Consignee shall bear all risk after the Goods leave the deck of the Company's Steamer.*

NOTE. In 1922 and 1923—since this form was first included here—conferences were held in Brussels to unify international rules relating to bills of lading. As a result the legal liabilities, and the rights and immunities, of carriers by sea were revised in this country by the Carriage of Goods by Sea Act, 1924, which came into force on 1st January, 1925.

Shippers are requested to note particularly the terms and conditions of this Bill of Lading with reference to the validity of the insurance upon their goods.

*** Special attention is called to the sections of the "Merchant Shipping Act," whereby shippers of Dangerous Goods are required, under a penalty of £100, to mark the nature of the goods on the outside of the packages, and to give written notice of the nature of such goods, and of the name and address of the sender, to the Master or Owner of the Vessel. Shippers contravening these enactments are not only liable to heavy penalties under the Act, but also incur most serious responsibility for any damage to person or to property which may result.

10.—*The Company are not responsible for any consequences arising from the Sanitary or other Regulations of Government or Local Authorities, which may prevent or delay the disembarkation of the Goods. The Company will not be liable for any claim for loss, short delivery, or damage, unless shown upon the receipts given or tallies taken at the time of discharge of the Steamer. No claim that may arise in respect of Goods shipped under this Bill of Lading will be recoverable unless made at the Port of delivery within seven days from the completion of the Ship's discharge there.*

11.—*It is not guaranteed that space will be available for Cargo at Ports of transhipment.*

12.—*Specie will not be shipped or landed at Ports abroad by the Company; it will only be delivered on presentation of the Bills of Lading, properly endorsed, on board; it may be carried on at Consignee's risk if delivery is not taken during the Vessel's stay in Port, and in every case the liability of the Company shall cease when the specie leaves the Steamer's deck.*

13.—*Where Goods are to be received on board from craft alongside, or to be discharged into craft alongside, they shall be so shipped or discharged at the sole risk of the Shipper or Consignee, and the Company shall not be liable for any accident, loss or damage happening to the Goods during or arising out of such shipment or discharge under any circumstances whatever.*

14.—*If on arrival at the Port of destination the importation of the Goods carried should be prohibited, the Company may, at their option, either jettison the Goods or otherwise dispose of them, or carry them back to the Port of shipment or transhipment, and land the same there at the risk and expense of the original Shippers, and the Company shall have a lien upon the Goods for all freight and charges.*

15.—*Freight is chargeable in all cases on the weight, measurement or value of the Goods at the Company's option, and on each package at the rate applicable to Goods of the highest class contained therein. For the purpose of ascertaining the amount of freight to be charged the Shipper shall declare the true contents and value of each package, and any failure to make such declaration, or the making of any incorrect or insufficient declaration, shall release the Company from all responsibility, and shall entitle them to charge double freight calculated according to the true contents and/or value of the Goods, such double freight being a liquidated claim and not a penalty.*

16.—*The Company will not be accountable for Gold, Silver, Bullion, Specie, Jewellery, Ostrich Feathers, Precious Stones, Precious Metals, or other articles of value, unless the Bills of Lading are signed for such Goods, and the value declared therein; nor beyond a value of One Hundred Pounds per freight ton (and relatively for any portion thereof) of Goods of any kind, nor beyond the amount of One Hundred Pounds for any package exceeding one freight ton, and in the event of any claim arising for loss or damage, the Company shall have the option of settling same at invoice price or at the ascertained market value on the date of arrival.*

17.—*All fines, losses, costs, damages, or expenses caused by detention of Ship or Cargo, arising from any omissions or errors herein, or from any omission of or errors in particulars or documents required by the authorities at any of the Ports of Shipment, transhipment or discharge, shall be borne by the Consignee of the goods, and the Ship shall have a lien on the said goods until the same be paid.*

18.—*Every holder of this Bill of Lading shall take it subject to the above-mentioned lien of the Ship for Freight, Primage and Charges, except those for which a receipt is endorsed hereon or attached hereto.*

19.—*This Bill of Lading shall be construed and have effect according to English Law.*

20.—*In accepting this Bill of Lading the Shipper on behalf of all concerned accepts and agrees to all its stipulations, exceptions and conditions, whether printed or written.*

FOR THE MASTER

Sections 5 and 7. A clean bill of lading, as there stated, is one that says the goods have been shipped "in good order and condition." It makes the master liable to deliver, the goods in the condition named; but, because the insides of the packages are not accessible for examination when the goods are received, it is customary for the master to protect himself and his owner by putting into the bill of lading the reservation, "weights, contents, and value unknown."

The specimen bill of lading here given states that the contract is subject to the lien that a carrier has for his charges. The shipowner can preserve this lien by giving written notice of it to the person with whom he deposits the goods when they are landed. Freight on goods exported from this country is usually paid in advance, and that for the homeward voyage on delivery. The specimen bill of lading states that it is subject also to the *exceptions and conditions* enumerated at the foot of the document. Of the twenty clauses in which these exceptions and conditions are set out, Clause 5 contains the reservation about contents referred to above. Together with Clause 6, it contains also a number of exceptions that come under the general exemption for inherent vice previously explained. In Clause 1 are included the two other common law exemptions of act of God and King's enemies, accompanied by many more. *Jettison* is the name given to the throwing overboard of cargo or tackle in order to lighten the ship in an emergency; *barratry*, that for any wrongful act wilfully committed by the master or the crew to the prejudice of the owner, or the charterer of the ship, or any owner of cargo—for example, running away with the ship, setting her afire, or appropriating cargo. *Perils of the sea* has been held to apply only to unexpected accidents which may happen, and not to damage by wind or water such as must happen on every voyage. Clause 11 here is the equivalent of the rule that a common carrier is not bound to receive or to carry goods offered when his conveyance is already filled. It will be noticed that, by Clauses 1 and 3, the shipowners exempt themselves

from liability under the otherwise implied warranties of non-deviation and of despatch; whilst by Clause 2 they contract out of the remaining warranty that would be implied, namely, seaworthiness. Three of the exemptions granted by the Merchant Shipping Act also appear—in Clause 1, those for loss by fire or pilot; and in Clause 16, that for gold, silver, jewellery, etc., undeclared. (But, *see* note, p. 361.)

As explained in Chapter XIII, the *three purposes* that a bill of lading serves are, that it is—

(i) A receipt given on behalf of the shipowner for the goods delivered to him for shipment by his vessel;
(ii) The written evidence of the terms of the contract under which the shipowner agrees to carry the goods;
(iii) The document of title which gives the holder or endorsee the right to claim the goods at their destination.

The bill of lading is supposed to be issued by the master of the ship; but it is usually signed for him by someone else. As the document of title, it commonly states that the goods it represents are deliverable to the consignee or his assigns, if the consignee is named; if not, to, or to the assigns of, the consignor. This makes the bill of lading *transferable by endorsement.* With it passes the title to the goods, and the power to sue in regard to them as well. A blank endorsement makes the document *transferable by delivery* merely; but when not drawn to order, it is not transferable at all. Though a bill of lading may be transferable, it is not negotiable like a bill of exchange, because transfer of the former does not cause a valid title to pass to the transferee when the transferor's title is defective. Transfer in good faith and for value does, however, deprive an unpaid seller of the right he has to stop the goods in transit when the buyer is insolvent.

As a rule, each bill of lading consists of a *set of three copies*, all of which are exactly alike. The reason for this was given in Chapter XIII. Sometimes, however, only two copies are asked for by the shipper. In any case, each copy must bear a revenue stamp for sixpence. At the port of destination the goods are delivered up to the person that first surrenders one of the set; and, if the agent of the shipowner acts in good

faith and without knowledge of conflicting claims, the shipowner is free from liability should it turn out that the person claiming has no right to the bill of lading or to the goods. When a second claimant appears, it is the duty of the shipowner or his representative to interplead—to cause the two holders to show in a court of law which has the prior right; that is, which of the two first became a transferee.

CHAPTER XXVI

MARINE AND OTHER INSURANCE

1. **Lloyd's and the Insurance Companies.** (1) *Lloyd's* is an incorporated association in London of underwriters, brokers, and others engaged in insurance business of all kinds. It took its name from an enterprising coffee-house keeper who moved from Tower Street to Lombard Street about 1692; and who, by collecting and publishing information about ships and shipping matters, made his premises the favourite rendezvous in those days of merchants, shipowners, and all persons whose interests lay on the sea. Many years later, a number of the frequenters of Lloyd's Coffee House, who carried on the business of marine insurance, formed themselves into the association already named, and established themselves in their present home at the Royal Exchange. In 1871 the association was incorporated by Act of Parliament. As a corporate institution, Lloyd's keeps a register of British and foreign ships classified according to their seaworthiness; whilst by means of agents all over the world, it reports the movements of vessels in ports and at passing places, and posts in its rooms lists of those that are "overdue" and "missing."

The business of insurance is not, however, conducted by the association as a body; but by members in their individual capacities. It is only by the ***underwriting members*** that insurance risks are actually borne, the name of "underwriters" having arisen from their subscribing their signatures. to the risks they agreed to take. Usually only a portion of a risk to be insured is subscribed by one member. Commonly, too, that portion is shared with him by several others for whom he subscribes as agent; and so a Lloyd's policy may bear the names of a score or so of individual insurers. It is the work of the ***broker-members*** of Lloyd's to procure

business for the underwriters. A merchant, desiring to insure cargo valued at £10,000, for example, would approach a broker. The latter would write on a *slip* particulars of the risk—the ship, the voyage, the kind of goods, the number of packages, the value, and the rate suggested. This slip would be taken by the broker to the underwriters' room at Lloyd's, and an underwriter accepting part of the insurance would sign the slip, marking against his signature the amount he agreed to take for himself and for any other members for whom he had power to act. The broker would offer the slip to other underwriters for signature until he had the whole of the amount accepted. He would then prepare the policy on Lloyd's printed form; and, after having it completed with the signatures of the various members who had previously signed the slip, he would hand the policy to the merchant in return for the "premium," as the charge payable by the assured is called.

(2) The *Insurance Companies* are joint-stock bodies incorporated under the Companies Acts (or, in the cases of a few of the older offices, by Royal Charter) in the manner explained in Chapter XXVII. Some of the companies confine their attention to marine insurance; but others are engaged in insurance business of many kinds. Any of the larger companies would usually undertake itself the whole of a marine risk offered, and would itself issue a policy for the whole amount. Sometimes, however, the company would re-insure a part either with another office or with underwriters at Lloyd's. Until the policy was prepared, a *cover note* might or might not be issued. Application for the insurance could be made direct to one of the company's offices; or the risk could be placed through a broker or an agent, who would be allowed a commission on the premium.

2. Marine Insurance Policies. (1) *Form of the Policy.* On pages 368 to 371 will be found the text of Lloyd's marine insurance policy, together with the rules of interpretation that are appended to this form of policy in the Marine Insurance Act, 1906. On pages 373 to 375 is given for

LLÓYD'S S.G. POLICY.

BE IT KNOWN THAT *A B* as well in *his* own name as fôr and in the name and names of all and every other person or persons to whom the same doth, may, or shall appertain, in part or in all doth make assurance and cause *himself* and them, and every of them, to be insured lost or not lost, at and from *London via Southampton to Cape Town* Upon any kind of goods and merchandises (and also upon the body, tackle, apparel, ordnance, munition, artillery, boat, and other furniture), of and in the good ship or vessel called the *Durham Castle, S.*, whereof is master under God, for this present voyage, . . . or whosoever else shall go for master in the said ship, or by whatsoever other name or names the said ship, or the master thereof, is or shall be named or called; beginning the adventure upon the said goods and merchandises from the loading thereof aboard the said ship *as above*,

(upon the said ship, etc.)

and so shall continue and endure (during her abode there, upon the said ship, etc. And further), until the said (ship, with all her ordnance, tackle, apparel, etc., and) goods and merchandises whatsoever shall be arrived at *as above* (upon the said ship, etc., until she hath moored at anchor twenty-four hours in good safety;) and upon the goods and merchandises, until the same be there discharged and safely landed. And it shall be lawful for the said ship, etc., in this voyage to proceed and sail to and touch and stay at any ports or places whatsoever *within the limits of the above voyage, for necessary provisions, assistance or repairs,* without prejudice to this insurance. The said (ship, etc.,) goods and merchandises, etc., for so much as concerns the assured by agreement between the assured and assurers in this policy, are and shall be valued at *Five hundred and seventy pounds on six bales Cotton Piece Goods as specification attached.*

TOUCHING the adventures and perils which we the assurers are contented to bear and do take upon us in this voyage: they are of the seas, men of war, fire, enemies, pirates, rovers, thieves, jettisons, letters of mart and countermart, surprisals, takings at sea, arrests, restraints, and detainments of all kings, princes, and people of what nation, condition, or quality soever, barratry of the master and mariners, and of all other perils, losses, and misfortunes, that have or shall come to the hurt, detriment, or damage of the said goods and merchandises (and ship, etc.), or any part thereof. [*Sue and labour clause.*] And in case of any loss or misfortune it shall be

lawful to the assured, their factors, servants and assigns, to sue, labour, and travel for, in and about the defence, safeguard, and recovery of the said goods and merchandises, and ship, etc., or any part thereof, without prejudice to this insurance; to the charges whereof we, the assurers, will contribute each one according to the rate and quantity of his sum herein assured. [*Waiver clause.*] And it is especially declared and agreed that no acts of the insurer or insured in recovering, saving, or preserving the property insured shall be considered as a waiver, or acceptance of abandonment. And it is agreed by us, the insurers, that this writing or policy of assurance shall be of as much force and effect as the surest writing or policy of assurance heretofore made in Lombard Street, or in the Royal Exchange, or elsewhere in London. And so we, the assurers, are contented, and do hereby promise and bind ourselves, each one for his own part, our heirs, executors, and goods, to the assured, their executors, administrators, and assigns, for the true performance of the premises, confessing ourselves paid the consideration due unto us for this assurance by the assured, at and after the rate of *Seven shillings and sixpence per cent.*

IN WITNESS whereof we, the assurers, have subscribed our names and sums assured in London.

Memorandum.—*N.B.*—Corn, fish, salt, fruit, flour, and seed are warranted free from average, unless general, or the ship be stranded —sugar, tobacco, hemp, flax, hides and skins are warranted free from average, under five pounds per cent., and all other goods, also the ship and freight, are warranted free from average, under three pounds per cent. unless general, or the ship be stranded.

RULES FOR THE CONSTRUCTION OF THE POLICY.

1. *Lost or Not Lost.*—Where the subject-matter is insured "lost or not lost," and the loss has occurred before the contract is concluded, the risk attaches unless, at such time, the assured was aware of the loss, and the insurer was not.

2. *From.*—Where the subject-matter is insured "from" a particular place, the risk does not attach until the ship starts on the voyage insured.

3. *At and From:* (*a*) *Ship.*—Where a ship is insured "at and from" a particular place, and she is at that place in good safety when the contract is concluded, the risk attaches immediately.

(*b*) If she be not at that place when the contract is concluded the risk attaches as soon as she arrives there in good safety, and, unless the policy otherwise provides, it is immaterial that she is covered by another policy for a specified time after arrival.

(*c*) *Freight.*—Where chartered freight is insured "at and from" a particular place, and the ship is at that place in good safety when the contract is concluded the risk attaches immediately. If she be not there when the contract is concluded, the risk attaches as soon as she arrives there in good safety.

(*d*) Where freight, other than chartered freight, is payable without special conditions and is insured "at and from" a particular place, the risk attaches *pro rata* as the goods or merchandise are shipped; provided that if there be cargo in readiness which belongs to the shipowner, or which some other person has contracted with him to ship, the risk attaches as soon as the ship is ready to receive such cargo.

4. *From the Loading thereof*—Where goods or other moveables are insured "from the loading thereof," the risk does not attach until such goods or moveables are actually on board, and the insurer is not liable for them while in transit from the shore to the ship.

5. *Safely Landed.*—Where the risk on goods or other moveables continues until they are "safely landed," they must be landed in the customary manner and within a reasonable time after arrival at the port of discharge, and if they are not so landed the risk ceases.

6. *Touch and Stay.*—In the absence of any further licence or usage, the liberty to touch and stay "at any port or place whatsoever" does not authorize the ship to depart from the course of her voyage from the port of departure to the port of destination.

7. *Perils of the Seas.*—The term "perils of the seas" refers only to fortuitous accidents or casualties of the seas. It does not include the ordinary action of the winds and waves.

8. *Pirates.*—The term "pirates" includes passengers who mutiny and rioters who attack the ship from the shore.

9 *Thieves.*—The term "thieves" does not cover clandestine theft or a theft committed by any one of the ship's company, whether crew or passengers.

10. *Restraint of Princes.*—The term "arrests, etc., of kings, princes, and people," refers to political or executive acts, and does not include a loss caused by riot or by ordinary judicial process.

11. *Barratry.*—The term "barratry" includes every wrongful act wilfully committed by the master or crew to the prejudice of the owner, or, as the case may be, the charterer.

12. *All other Perils.*—The term "all other perils" includes only perils similar in kind to the perils specifically mentioned in the policy.

13. *Average unless General.*—The term "average unless general," means a partial loss of the subject-matter insured other than a general average loss, and does not include "particular charges."

14. *Stranded.*—Where the ship has stranded, the insurer is liable for the excepted losses, although the loss is not attributable to the stranding, provided that when the stranding takes place the risk has attached and, if the policy be on goods, that the damaged goods are on board.

15. *Ship.*—The term "ship" includes the hull, materials, and outfit, stores and provisions for the officers and crew, and, in the case of vessels engaged in a special trade, the ordinary fittings requisite for the trade, and also, in the case of a steamship, the machinery, boilers, and coals and engine stores if owned by the assured.

16. *Freight.*—The term "freight" includes the profit derivable by a shipowner from the employment of his ship to carry his own goods or moveables, as well as freight payable by a third party, but does not include passage money.

17. *Goods.*—The term "goods" means goods in the nature of merchandise, and does not include personal effects or provisions and stores for use on board.

In the absence of any usage to the contrary, deck cargo and living animals must be insured specifically, and not under the general denomination of goods.

comparison a copy of a company's policy. The latter form is intended only for "any kind of goods and merchandise and freight"; but Lloyd's form is so worded as to cover the ship alone, or goods alone, or freight alone, or all or any two of these together. The portions that apply only to the ship, and that are not required in an insurance for goods alone, have been placed within brackets in the specimen form here given; and the method of filling in the blanks of the printed form is shown here in italics.

The present form of Lloyd's policy, except for two slight alterations, dates back to 1779; but much of the phraseology is older, and though strikingly antiquated now, it is retained because almost every word has been before the Courts. The legal effect of every part of the policy is fixed and understood; and for that reason this form is used with little alteration by the companies for their policies also. Extra clauses may be added by writing them in, by printing or stamping them on the margin, or by affixing a slip containing the added clause or clauses. Examples will be found in the Royal Insurance Company's form that follows. If a clause so added is not to be retained, it may be deleted and the deletion initialed; but every clause that remains added overrides any part of the body of the policy with which it would otherwise be in conflict.

(2) *Kinds of Policies.* Where the policy insures the subject-matter at and from or from one place to another, or others, it is called a *voyage policy.* If the insurance is to last for a period named by reference to certain days or months, the policy is a *time policy.* A time policy may not be made for more than twelve months; but a twelve months' policy insuring a ship may contain a "continuation clause," which is in effect an additional insurance, not to exceed thirty days, for the remainder of the voyage that may be incomplete when the twelve months expire. Insurance for a voyage and for a period of time before or after may be included in the one policy. A policy that names an agreed value for the thing insured is said to be *valued;* and *unvalued* if it does

ROYAL INSURANCE COMPANY, LIMITED

Head Office:
1, NORTH JOHN STREET, LIVERPOOL

London Office:
24-28, LOMBARD STREET, E.C.3.

INCORPORATED 1845.

BRANCH OFFICE:

13, EXCHANGE STREET, MANCHESTER.

Marine Policy.

NO.

Premium

£

Whereas it has been proposed to the **ROYAL INSURANCE COMPANY, LIMITED** by
as well in own name as for and in the name and names of all and every other person or persons to whom the subject matter of this Policy does may or shall appertain in part or in all to make with the said Company the Insurance hereinafter mentioned and described,
NOW THIS POLICY WITNESSETH that in consideration of the said person or persons effecting this Policy promising to pay to the said Company the sum of

as a premium at and after the rate of
per cent. for such Insurance the said Company takes upon itself the burthen of such Insurance to the amount of

£

and promises and agrees with the Assured their Executors Administrators and Assigns in all respects truly to perform and fulfil the contract contained in this Policy. AND it is hereby agreed and declared that the said Insurance shall be and is an Insurance (lost or not lost) at and from

upon any kind of Goods and Merchandise and Freight of and in the Ship or Vessel called the
whereof is at present Master or whoever shall go for Master in the said Ship or Vessel.

Including risk of Craft and Boats to and from the Ship or Vessel.

General Average payable as per Foreign Statement or York-Antwerp Rules, if in accordance with contract of affreightment.

In the event of the vessel making any deviation or change of voyage, it is mutually agreed that such deviation or change shall be held covered at a premium to be arranged, provided due notice be given by the Assured on receipt of advice of such deviation or change of voyage.

Warranted free from particular average unless the vessel or craft be stranded, sunk, or burnt, each craft or lighter being deemed a separate insurance.

Underwriters, notwithstanding this warranty, to pay for any loss or damage caused by fire or by collision with any other ship or craft, and any special charges for warehouse rent, re-shipping, or forwarding, for which they would other-

AND it is also agreed and declared that the subject matter of this Policy as between the Assured and the said Company so far as concerns this Policy shall be and is as follows upon

wise be liable. *Also to* pay the insured value of any package or packages which may be totally lost in transhipment.

Grounding in the Suez Canal, or in the River Plate, and/or tributaries above Buenos Ayres, or in the Panama Canal, or in the Manchester Ship Canal or its connections, or in the River Mersey above Rock Ferry Slip, shall not be deemed a stranding, but Underwriters to pay for any damage or loss which may be proved to have directly resulted therefrom.

Warranted free of capture, seizure, arrest, restraint, or detainment, and the consequences thereof or any attempt thereat, piracy excepted, and also from all consequences of hostilities or warlike operations, whether before or after declaration of war.

Warranted free of loss or damage caused by strikers locked out workmen or persons taking part in labour disturbances or riots or civil commotions.

AND the said Company promises and agrees that the Insurance aforesaid shall commence upon the said Freight Goods and Merchandise from the time when the Goods or Merchandise shall be laden on board the said Ship or Vessel Craft or Boat *as above* and continue until the said Goods and Merchandise be discharged and safely landed at *as above*. AND that it shall be lawful for the said Ship or Vessel in the Voyage so insured as aforesaid to proceed and sail to and touch and stay at any Ports or Places whatsoever without prejudice to this Insurance. AND touching the adventures and perils which the said Company is contented to bear and does take upon itself in the Voyage so insured as aforesaid they are of the Seas Men-of-War Fire Enemies Pirates Rovers Thieves Jettisons Letters of Mart and Counter Mart Surprisals Takings at Sea Arrests Restraints and Detainments of all Kings Princes and People of what Nation Condition or Quality soever Barratry of the Master and Mariners and all other Perils Losses and Misfortunes that have or shall come to the Hurt Detriment or Damage of the aforesaid subject matter of this Insurance or any part thereof. And in case of any Loss or Misfortune it shall be lawful if necessary for the Assured their Factors Servants and Assigns to sue labour and travel for in and about the Defence Safeguard and Recovery of the aforesaid subject matter of this Insurance or any part thereof without prejudice to this Insurance the charges whereof the said Company will bear in proportion to the sum hereby insured. AND it is expressly declared and agreed that the acts of Insurer or Assured in Recovering Saving or Preserving the Property insured shall not be considered an acceptance or waiver of abandonment. AND it is declared and agreed that Corn Fish Salt Saltpetre Fruit Flour Rice Seeds Hides Skins and Molasses shall be and are warranted free from Average unless general or the Ship be stranded sunk or burnt and that Sugar Tobacco Hemp and Flax shall be and are warranted free from average under Five Pounds per centum and that all other Goods and also Ship and Freight shall be and are warranted free from average under Three Pounds per centum unless general or the Ship be stranded sunk or burnt.

IN WITNESS WHEREOF this Policy has been signed this

Director.

not. In the latter case, if it is goods that are insured, the value is to be taken as their cost with shipping and insurance charges added. This, it will be noticed, does not cover the prospective profit of the exporter, though in taking out a valued policy it is his custom to include a margin for profit. *An open or floating policy* is a form of unvalued policy taken out for a round sum, and the shipments made under the policy by various vessels are declared afterwards as they occur. In such case, it is customary to agree that the values to be declared shall be the invoice costs and charges with the addition of 10 per cent. for profit. The chief requirements for the *stamping of policies* are mentioned in Chapter XIII, Section 6. When a voyage policy covers a period of time exceeding thirty days in addition to the actual voyage, the policy must be stamped for both voyage and time; and the continuation clause in a twelve months' policy increases by sixpence the value of the stamp required. The stamps should be impressed before the policies are executed.

(3) *What the Policy Insures.* A policy of sea insurance is used to cover loss of or damage to a ship or its cargo, or loss of freight, or liability to a third party, if the loss, or damage, or liability arises out of a marine adventure. It may also extend to cover losses on land or inland waters if these losses are incidental to the voyage, as when under a " warehouse to warehouse clause " the policy keeps the goods insured from their leaving the consignor's premises until they reach those of the consignee. The shipper of goods should see that his policy covers, if possible, everything from which the shipowner is exempted at common law or by Act of Parliament, or by the special conditions inserted in his bill of lading. The policy should, therefore, include those risks such as perils of the sea, fire, pirates, thieves, jettison, and barratry, all of which are mentioned in the previous chapter in dealing with carriage by sea, and all of which appear as exemptions in the specimen bill of lading shown on pages 360 to 362. Enemies, " letters of mart and counter mart, surprisals, takings at sea, arrests, restraints and

detainments of all kings, princes and people of what nation and quality soever" refer to war risks, which are commonly excluded from the policy by the F.C. & S. (free of capture and seizure) clause, as added in the margin of the Royal policy on pages 373 to 375. Should the policy be intended to include war risks, this warranty would be deleted.

3. The Marine Insurance Act, 1906, is a codification in some ninety short sections of the rules of English law governing marine insurance. Some of the rules have been stated above; others are as follow—

(1) *The Slip and the Policy*. No contract of marine insurance is valid unless it is expressed in a written policy duly stamped; but when once the policy has been issued, reference may be made to the "slip," or to the provisional cover note, to establish the date of commencement of the insurance, or for evidence on other points. The interest in a policy of insurance may be assigned, that is, transferred to another person, by endorsement of the policy.

(2) *Insurable Interest*. Unless the person taking out insurance has a *bona fide* interest in the thing insured, the policy is a gambling contract and void on that account. The taking out of such a policy is an offence punishable by six months' imprisonment or a fine of £100. A person has an insurable interest in property if he stands to benefit by its safety or preservation, or to suffer by its loss, damage, or delay. Such an interest is insurable, though it be only partial or contingent. It includes a shipper's interest in freight he has paid, a shipowner's or charterer's interest in freight to be collected on delivery, as well as their interests in the ship and the cargo. P.P.I. or "policy proof of interest" is the common name for a wagering contract of marine insurance; but such a policy is sometimes issued where the assured is unable to estimate the extent of his interest and the insurer agrees to dispense with the evidence ordinarily required to substantiate a claim.

(3) *Full Disclosure*. A policy of insurance is void also if either party to it does not act with the utmost good faith

in the making of it. Every circumstance that is known or ought to be known to the proposer must be disclosed by him, or by the person acting for him, if the circumstance is such as would influence the insurer in deciding to undertake or to refuse the risk. Circumstances that the insurer ought to know need not, however, be communicated to him. Further, every representation made by or for the proposer, if it influences the insurer, must be true. This rule is common to all insurances, and is much more stringent than what is required of the parties to an ordinary contract, such as one for services or for the sale of goods.

(4) *Warranties.* In a policy of insurance, a warranty has the force that a condition has in an ordinary contract; so that the breaking of a warranty given by the assured discharges the insurer from liability as from the date on which the breach occurs. A warranty may be either expressed in the policy or implied from the circumstances of the case. In marine insurances, there are the three implied warranties referred to already under the Law of Freight, namely, (*a*) that the vessel must be seaworthy at the commencement of the voyage and fit to carry the goods insured; (*b*) that the voyage shall be commenced within a reasonable time and prosecuted with reasonable despatch; (*c*) that the voyage shall not be changed, nor the vessel deviate from her course.

(5) *Payment of the Premium.* The insurer is not obliged to issue the policy before the premium is paid, unless there is some understanding to the contrary. If the insurance is effected through a broker, the broker may retain the policy until he receives the premium; but he is himself responsible to the insurer for its payment. An acknowledgment in the policy of the receipt of the premium is conclusive as between insurer and assured. As regards claims, the insurer is directly responsible to the assured for the amount of any loss, or for any return of premium that can be insisted upon. In certain circumstances, where it turns out that there has never been any actual risk for the insurer to bear in respect of the thing assured or of any part of it, a return of premium is compulsory.

4. **Marine Losses.** Below are some of the more important of the provisions of the Marine Insurance Act regarding losses—

(1) *Proximate Cause.* The insurer is liable for any loss, if the proximate or immediate cause is a peril of the sea or other risk insured against under the policy. But the ordinary policy does not make him liable for the consequences of wilful misconduct on the part of the assured; nor for delay even when it is a direct result of one of the perils that the policy covers. Nor does his liability extend to ordinary wear and tear or leakage and breakage, to the inherent vice or nature of the thing insured, to loss directly caused by rats or vermin, or to injury to machinery not due to perils of the sea. The parties to the insurance may, however, include any of these risks in the policy if they so agree.

(2) *Total Loss.* A loss may be partial or total. A total loss, again, may be an actual total loss or a constructive total loss. *Actual total loss* occurs when the thing insured is destroyed; or if its nature is so changed that it ceases to be a thing of the kind insured, as when sugar, for example, has been dissolved by sea water; or if the assured is irretrievably deprived of its possession or benefit, as when his ship or goods have fallen into the hands of pirates or enemies. *Constructive total loss* occurs when the thing insured is reasonably abandoned because its actual loss appears to be unavoidable, or because the expenditure necessary to recover it or to preserve it would exceed what would then be the value of the thing. For example, repairs to a damaged ship might make the cost of the repaired ship more than its worth; or the reconditioning or forwarding of damaged goods entail an outlay greater than the price the goods would sell for at their destination. In such a case, the assured may treat the loss as a partial loss, or he may, by giving notice to that effect, abandon to the insurer his interest and rights in the thing insured, and then treat the loss as if it were a total loss. The insurer, however, is not bound to accept the notice, or to acquiesce in the abandonment, until it is decided whether

the assured is justified in viewing what has happened as a constructive total loss, or not.

(3) *General Average.* In maritime matters this word "average" has an older meaning than the one ordinarily given to it in modern use. The term seems to have signified at first loss or damage sustained by property at sea, and then to have been applied to the contribution required all round, in order to make good such loss to the sufferer in certain circumstances. The name is used in connection with two kinds of losses at sea, namely, general average and particular average. Both of these come under the head of partial loss, because in neither case does the loss fall as a total loss on the person whose property suffers. A *general average loss* is one that results directly from a general average act, that is, from any action out of the ordinary course, voluntarily and reasonably taken by the master of a ship in time of peril for the common safety of ship and cargo. The act may be a general average sacrifice or a general average expenditure, the former referring to a sacrifice of part of the ship or to a sacrifice of cargo; the latter to expenses incurred, the object in each case being the preservation of the whole, or as much as possible of the whole, of the property in common danger. The party, whether shipowner, cargo-owner, or charterer, whose ship or goods or freight-charges are sacrificed, or on whom the expenditure falls, is entitled to receive, from each of the other parties whose property is preserved, a contribution towards the loss, proportionate to the interest the contributor had at stake. This practice has come down into modern maritime affairs from a custom established amongst the sea-faring peoples of the Mediterranean between two and three thousand years ago. In the maritime laws of the nations of to-day, the liability to general average contribution is a condition that always underlies the contract for carriage of goods by sea. If the ship, or the goods shipped, were not insured, the owner would have to bear his share of the contribution himself. But when a party interested has insured his property, he can

recover the amount of his contribution from the insurer, unless the policy he has taken out is "free of general average."

The *adjustment of general average* should be made at the port of destination, or at the port where the voyage has been prematurely broken up. The responsibility for making the adjustment devolves on the shipowner, who places the work in the hands of a skilled average stater. The rules of English law with respect to general average differ from those of the laws of other countries. For that reason, it is usual to settle beforehand, by stipulation in the contracts of affreightment and of insurance, how a general average loss is to be dealt with, should one occur. The bill of lading at page 360, and the insurance policy at page 374, both name in this connection the *York-Antwerp Rules*. These are a set of rules formulated as the result of three different conferences of international delegates, the first held at York in 1864, the next at Antwerp in 1877, and the last at Liverpool in 1890. The following are examples of losses that may be allowed as general average if they are incurred in the circumstances named in the definition of the term—

(*a*) *General Average Sacrifice.*—Jettison of cargo stowed below deck, jettison of ship's stores or tackle; damage caused to engines in trying to refloat the ship when stranded; damage by water used to extinguish fire, if the goods so damaged have not themselves been afire; loss of freight consequent on a general average act.

(*b*) *General Average Expenditure.*—Cost of repairs necessary to avert the common peril; charges incurred in towage to, and for entering, a port of refuge, and of unloading if that is necessary for the common safety; charges incurred in transferring cargo to lighters in order to lighten and refloat the vessel that is in danger.

(4) *Particular Average.* A particular average loss is defined as a partial loss which is not a general average loss, and which has been caused by a peril insured against. Here the loss falls wholly on the person whose property or interest suffers; but he claims for the amount under his insurance policy. The object of percentages being named in the "Memorandum" to Lloyd's policy is to relieve the

underwriters from the liability for, and the trouble of dealing with, large numbers of small claims for damage of inconsiderable extent. In a large shipment, however, 3 per cent. of the total value would amount to no insignificant sum, the loss of which the shipper would, by the terms of the memorandum, be precluded from claiming under his policy. It has, therefore, become a general practice to insert in the policy a stipulation such as average to be payable "on each package separately"; or, "on each ten bags, running landing numbers." The effect of the Memorandum is frequently modified, also, by the insertion in the policy of the F.P.A. Clause, as contained in the first three warranties on the margin of the Royal policy reproduced in this chapter.

(5) *Claims for Losses* made on the underwriters or insuring companies should be substantiated by the policy, the bill of lading, and a *survey report.* The last named is issued by a surveyor of damaged cargo at the port of discharge to certify the extent of the damage sustained. The damage is estimated as the difference between the value of the damaged goods and what would have been their value if they had been delivered sound. This difference is expressed as a percentage of the sound value, and the insurer is liable for the same percentage of whatever value was agreed to in the policy, or was declared against the policy afterwards.

When aid is rendered voluntarily and successfully to a vessel in distress, the salvor or person rendering the aid is entitled to a reward for his services, and these *salvage charges* can be claimed for under the policy as part of a loss insured. The cost of services for salvage or for other purposes, rendered under contract instead of voluntary, may also be recovered according to circumstances, either as part of a general average expenditure, or as *particular charges* payable over and above the amount of a claim for particular average or total loss. A reference to particular charges will be found in the "sue and labour clause" of the policy. Damage made good may be followed by a total loss of the same merchandise, and claim may be made against the insurer both for the cost of

making the damage good and for the total loss, even though the amount of the double claim exceeds the sum insured. By the doctrine of *subrogation*, the insurer, when he pays a claim, succeeds to any rights or interest the assured may still have in the property, in so far as the value of these rights and interest are included in the claim paid.

5. **Fire Insurance.** Here may be explained, perhaps more simply than elsewhere, the principle that underlies insurance in all its forms.

(1) *The Principle of Insurance.* Let us take for illustration the stocks and fixtures of some two hundred shopkeepers. In the ordinary course of events it would be extremely improbable that the misfortune of fire should overtake many of them in any limited period of time. Yet, each of the shopkeepers would be continually running the risk that sooner or later it would come his turn—not necessarily to have his trading property entirely destroyed, but to suffer loss to some extent. Now, if each of the two hundred had £1,000 at risk, and if each agreed to pay 4s per cent. per annum to a common fund, this fund would accumulate at the rate of £400 a year. Every one of the traders could then view his risk with comparatively easy mind, so long as not more than one shop was burned out every two and a half years. And, if some of the fires that took place caused only partial loss, the intervals might be much shorter without there being need for serious perturbation. No matter which of the shopkeepers happened to suffer at any time, there would always be enough money in the common fund to make good to him his loss.

Let the traders now be greatly increased in number. Let a permanent secretary be appointed for the sake of efficient management, a committee for supervision, and we have in working order a fire insurance office. All insurance offices are not managed on the *mutual* lines just sketched. Many are *proprietary* offices run by companies for profit, and paying dividends to shareholders. But that does not alter the principle of a common fund to which all policy-holders pay,

and from which each one's loss is made good as it occurs. Incidentally it may be pointed out that the two hundred shops might all be in the same ownership, as is common enough these days; or they might have their places taken by the buildings and contents of two hundred railway stations belonging to one railway company. Then it would begin to look as if the owners could safely act as their own insurers; for they could set aside yearly for each place the equivalent of the premium on a fire policy, and could put out at interest under their own control the fund so created.

(2) *The Fire Policy.* On page 385 is shown the form in general use for a fire policy; and on the following page a *résumé* of the conditions incorporated in the contract, and usually printed on the back of the policy. Some of these conditions may be modified, as when goods of a kind named in Clause 3 are specially held covered. It should be noticed that *goods, other than his own, in the policy-holder's possession* are not covered by the policy except by special agreement. The *full disclosure* and truthful representation necessary in all insurances are referred to in Clause 1. By Clause 6 it is required that notice of any loss be given forthwith. Clause 8 is important as reserving to the insuring company the *right to reinstate* the property destroyed or damaged, instead of paying the amount of the loss. Insurance is a *contract of indemnity*, which means that the insured is simply to be compensated for loss. On this point, fire insurance differs from marine insurance in the application of the stricter rule that, (*a*) it does not recognize loss of profit through destruction of the property insured, and (*b*) does not take the sum named in the policy as the agreed value of that property. If goods insured against fire are worth £3,000 only and are totally destroyed, the policy-holder cannot claim for more than £3,000, on the ground that he had the goods insured for £5,000 and had been paying premiums on that amount. And, by Clause 10, it makes no difference whether the £5,000 is insured all in one office or in several. Again, a policy may state that the insurance is "subject to average." If it does,

Form of Fire Policy.

SUN INSURANCE OFFICE.

Founded 1710.

No. ____________	Sum Insured £ ______________
First Premium £__________	Renewal Premium £ _________
From ____________________	*Due* _______________________

Chief Office: 63 Threadneedle Street, London, E.C.2.

THIS POLICY OF INSURANCE WITNESSETH that ____

____

hereinafter called the Insured, having paid to the SUN INSURANCE OFFICE (*hereinafter called the Company*) the sum of______________

____

for insuring against loss or damage by Fire, as hereinafter mentioned the property hereinafter described, in the several sums following, namely—

	£

The Company Hereby Agrees with the Insured (but subject to the Conditions endorsed hereon, which are to be taken as part of this policy) that if the Property herein described, or any part thereof, shall be destroyed or damaged by Fire at any time between the _____ day of __________ and Four o'clock in the afternoon of the ___ day of ___________ or at any time afterwards, so long as the Insured or _______ Representatives in interest shall pay to the Company, and it shall accept, the sum required for the renewal of this Policy, on or before the _____ day of ______ ___ in that and each succeeding year, the Company will, out of its Capital, Stock, Funds, and Property pay or make good to the Insured the value, at the time of the happening of such fire, of the Property so destroyed, or the amount of such damage, to an amount not exceeding in respect of the several matters herein specified the sum set opposite thereto respectively, not exceeding in the whole the sum of __________ pounds.

Provided that the Capital, Stock, Funds, and Property of the Company shall alone be answerable in respect of any claim made under this Policy and that the only liability of the Shareholders shall be to contribute to the funds of the Company the amounts unpaid on the shares held by them respectively.

In Witness Whereof I (*being one of the Directors of the said Company*) have hereunto set my hand and seal this ____ day of ____.

____

RÉSUMÉ OF THE CONDITIONS REFERRED TO IN THE POLICY ON THE OTHER SIDE.

1. Misdescription, misrepresentation, or omission renders the policy void.
2. Changes in the risk must be notified to the company and endorsed on the policy.
3. The policy does not cover—

Goods held in trust or on commission.
China, glass, jewels, manuscripts, drawings, musical instruments, etc.
Patterns, models, designs.
Deeds, bonds, bills of exchange, money, documents of title to goods, etc
Explosives or loss through explosion.
Loss through spontaneous heating.
Loss through earthquake, foreign enemy, riot, etc.

But loss through explosion of coal-gas and loss by lightning are covered.

4. Company's printed receipt is the only valid one.
5. If property insured passes to another person, policy ceases to be in force unless the company endorses policy to the contrary
6. Immediate written notice of loss is required, and written particulars of claim.
7. Benefit forfeited if claim fraudulent.
8. Reinstatement of destroyed or damaged property may be made instead of payment for the loss.
9. Company may enter premises where loss has occurred and may remain in possession or remove property insured.
10. Company liable only for a rateable contribution if the loss covered by this policy is also covered by another.
11. If other insurance of same property is subject to average, this also is subject to average.
12. Disputes about claims to be settled by arbitration.
13. If policy becomes void, money paid in respect of it is forfeited.
14. Insured to assist company to enforce any claim company may have on other persons.
15. Non-compliance with any warranty will be a bar to any claim under the policy.

but only if it does, a slip with the following clause will be attached and will apply—

Average.—Whenever a sum insured is declared to be subject to average, if the property covered thereby shall at the breaking out of any fire be collectively of greater value than such sum insured, then the assured shall be considered as being his own insurer for the difference and shall bear a rateable share of the loss accordingly.

In such a case, if a person held a policy for £6,000, but had goods worth £8,000 on which he suffered a loss of £5,000, he would not be able to prove a claim for more than £3,750, that is, five-eighths of the sum insured. It is worth noticing here that, unless a lease makes other provision, the tenant is still liable for rent, although the premises leased have become untenantable by reason of a fire. Either landlord or tenant may, however, insure the risk of *loss of rent* at the rate applicable to the buildings. Every policy of fire insurance must bear a sixpenny stamp.

(3) *Fire Office Methods.* The most important of the fire offices are associated for the purpose of following a common policy in the fixing and revising of rates, according to their combined experience in the matter of claims; and no associated office may undertake risks at less than the rates in the tariff agreed upon. Special sets of warranties are frequently made to apply to particular trades or to particular areas, the warranties being printed on a slip and attached to the policy when necessary. If the assured's premises consist of several buildings adjoining each other but structurally separate, the insuring company will require the value of the contents of each to be declared separately. Before a risk of any magnitude is accepted, the office will usually send its surveyor to inspect the premises; but, if the same risk is divided with other tariff offices, the survey of the leading office will suffice for all. Allowance from the premium is made in respect of fire-extinguishing appliances of various kinds. The premiums on fire policies usually fall due annually on one of the quarter days; and if a premium is not paid within fifteen days thereafter, the policy automatically

expires. If required, policies for shorter periods may be obtained. These are useful, for example, to insure merchandise lying in dock or railway warehouses awaiting an opportunity for sale.

6. Workmen's Compensation Act, 1906. By this Act, as now amended by the Workmen's Compensation Act, 1923, every employer is liable to pay compensation for personal injury to any of his workmen—

(1) If the accident arises out of or in the course of the workman's employment; and
(2) If the workman is prevented by the injury from earning his full wages for at least a week;
(3) Provided the injury was not caused by serious and wilful misconduct on the workman's part; or, whether or not, if it results in death or permanent disablement.

"Workman" here means (*a*) any person, male or female, employed in manual labour; (*b*) any person employed otherwise for less than £350 a year. The provisions of the Act extend to industrial diseases, that is, such as are due to the nature of the employment. Notice of injury should be given as soon as practicable and before the workman has voluntarily left the same employment, and claim for compensation should be made within six months of the accident or of death.

The *scale of compensation* as fixed by the Act is as follows—

(1) *For Death.*—(*a*) If the workman has left any person wholly dependent on him, the equivalent of three years' wages, or £200, whichever is the greater, but not more than £600; the payment to be made into the County Court for disposal. In cases of partial dependency, the sum may be less. (*b*) Where there is no dependent, the expenses of medical attendance and burial; but not more than £15.
(2) *For Incapacity.*—Up to 50 per cent. of the workman's average weekly earnings during the previous twelve months; but not more than 30s. a week.

Employers insure against this liability. The insurance office requires a return of the wages paid during the past year. Taking that return as a basis for the next twelve months, it charges in advance, on this total, a premium at

a rate per cent. varying with the greater or less dangerous nature of the employees' duties. If at the end of any year the total of wages paid is found to be more than the basis, a corresponding additional charge will be made; if less, part of the premium already paid will be refunded.

7. **Insurances of Other Kinds.** Business houses also insure where advisable against *accidents to third parties*, that is, to persons other than employees. Such accidents may happen in connection with lifts or motor vans. Personal injury to a stranger, damage to his or another's property, and damage to the insured's own van or wagon, or perhaps injury to his horses, can all be included in one policy. Retail establishments find it necessary to insure their *plate-glass* windows and fittings; and works commonly cover the risk of damage and injury by explosion of steam *boilers*. Frequently, too, the risk of loss through dishonesty of employees entrusted with money is insured under a *fidelity guarantee* policy. Then there are the National Health and Unemployment Insurances. These are Government schemes for the sole benefit of the workers; but employers are required to contribute by paying part of the value of the stamps that must be affixed to the workers' cards. *Life insurance* is usually a personal or family matter, and therefore outside the scope of a book on business.

CHAPTER XXVII

PARTNERSHIPS AND COMPANIES

1. **Of What Partnership Consists.** Partnership is the relation that exists between persons carrying on business in common with a view of sharing profits. In such words is the term defined by the Partnership Act of 1890, which Act contains the body of the law bearing on this subject. When a business belongs to a single owner, he is said to be a *sole trader*. If two or more persons associate as joint-owners of a business, such association is either a partnership or a joint-stock company. The formation and the legal status of a company will be dealt with presently. As for a partnership, or a "firm" as it is more frequently termed, its existence begins simply by agreement between the persons who become its members. But, in ordinary trading concerns, a partnership may not include more than twenty members, and in banking business not more than ten.

For persons to be partners, it is necessary that the purpose for which they associate shall be the carrying on of some kind of business; also that the making of profit shall be in contemplation. The fact that two or more individuals happen to be joint-owners of a steam yacht will not, in the eyes of the law, constitute them partners, unless they together use the yacht for trading, and with the object of making gain thereby. If they used it, for example, to carry goods or passengers for hire, then they would be partners; but such they would not be, if the yacht served merely as a means of pleasure-seeking for themselves and friends. Several persons may be joint-owners of houses, or of stocks and shares, or of other property, without their relation to each other being that of partnership. Not even the receipt of a share of the profit of a business will make the recipient a partner, if it is clear that he has no say in the business

management. Nor does the definition of partnership cover the kind of association commonly called a club.

By the Registration of Business Names Act, 1916, every firm and every individual, carrying on business in the United Kingdom in other than the true surnames (or full names) of the proprietors, must register certain particulars about the business and the proprietors, and must show their true names on the business stationery.

2. The Partnership Agreement. The agreement that forms the basis of a partnership may be written, or it may be oral only; or again it may be merely implied from the conduct of the parties. To prevent causes of dispute arising afterwards, partners would be wise if they came to exact terms at the beginning of the partnership, and if they had the terms embodied in formal Articles of Partnership drawn up by a solicitor. Some of the terms that such an agreement should contain would be as follow—

(1) How long the partnership is to last and how it may be ended.
(2) What contribution each partner must make to the capital of the firm.
(3) How and when the profits or the losses are to be divided.
(4) What things a partner may not do without the consent of his co-partners.
(5) How matters in dispute are to be settled.
(6) How a partner's share in the business is to be dealt with on his retirement or decease.
(7) What restraint from setting up in competition shall be placed on a retiring partner.

Below are a few *rules from the Partnership Act* that are to apply to questions about which the partners themselves have *not* made any agreement—

(1) Capital, profits and losses are to be shared equally.
(2) No salaries are to be paid to partners, and no interest is to be allowed on their capital accounts; but a partner is entitled to interest at 5 per cent. per annum on any advance he has made beyond his agreed share of capital.
(3) Every partner has the right to take part in the management of the firm's business.
(4) No new partner may be brought in without the consent of all existing partners.
(5) In disputes on any ordinary business matter, the will of the majority shall prevail; but, without the consent of all, no change shall be made in the nature of the business carried on.

3. **Changes in a Partnership.** If a partnership is entered into for a fixed term, or for a single adventure, *dissolution* of the partnership follows automatically on the expiration of the term, or on the termination of the adventure. When entered into for an indefinite time, the partnership will be dissolved at the date named for that event in the notice of dissolution given by any of the partners. Unless provision has been made for its continuation the partnership comes to an end, also, on the death or bankruptcy of one of its members. In certain circumstances, and in consequence of application by one of the partners, the Court may issue a decree compelling dissolution. Where the partnership agreement does not provide for the surviving partners to continue the business, a retiring partner, or the representatives of a deceased partner, may insist on the business being wound up, the assets realized, the creditors paid off, and the surplus, if any, divided and paid to the partners in their due shares.

Goodwill is the name given to the connection and reputation of a business, when these are viewed as having a value that can be realized on sale of the business, or that can be taken into account on admission of a new partner, or on retirement of an old one. When a realization of assets takes place on dissolution, the goodwill, if any then exists, will be sold along with the other assets, and the proceeds of the whole shared amongst the partners. The purchaser of the goodwill takes the right to use the business name and its trade-marks. The seller, unless restrained by reasonable agreement, is at liberty to set up a rival business; but he can probably be stopped in actively attempting to recapture the connection he has sold. When a new partner comes in the question of the valuation of goodwill arises, because his admission gives him a share in the benefit of the goodwill, as well as in the other assets of the business. Also, when a partner retires, he is entitled to have the value of his interest in the goodwill added to the share of other assets due to him.

4. **Partners and the Public.** Every partner is an agent of the firm and of his co-partners for the purpose of partnership

business; and any act he does, for carrying on in the usual way business of the kind carried on by the firm, binds the firm and the partners, unless he has, in fact, no authority to act for the firm in the particular matter, and the person with whom he is dealing either knows he has no authority, or does not know him to be a partner. This, as set out in Section 5 of the Partnership Act, is the key to the relation between a partner and the public in connection with the firm's business, and between the public and the firm. The partner is to be looked upon as an authorized agent of the firm in certain circumstances only, namely, when he is conducting *in the usual way business of the kind carried on* by the firm. The conditions amount to this—that a merchant, who, on the order of a partner in a firm of booksellers, supplied 1,000 barrels of herrings to be charged to the firm, would be unable to make the firm pay, unless he had obtained consent to the transaction from all the other partners. To take a less extreme example, the holder of a bill of exchange ostensibly accepted by a firm of solicitors or stockbrokers would not have an indisputable claim on the firm, but only on the partner individually who himself had given the acceptance. The reason is that the accepting of bills of exchange is no part of the ordinary business of solicitor or stockbroker, though it usually is part of the business of merchant, manufacturer, or trader.

It has been stated elsewhere that, in signing bills or cheques, the usual *signature of a firm* is simply the firm-name written by one of the partners; but a deed executed for a firm must be signed by all the partners individually. Further, for some kinds of transactions, as negotiating for a lease or giving a guarantee, the authority of every partner in the firm is necessary in all cases. A partner may, as between himself and his fellow-partners, be prohibited from doing certain things in connection with the business of the firm; but, by the law of agency, this makes no difference to an outsider dealing with the firm through that partner, provided the outsider has no notice or knowledge of the prohibition.

A partner who takes no part in his firm's dealings with the public, and little active part in the routine of internal management, is termed a *sleeping partner*. If a man who is not a partner is allowed by the actual partners so to conduct himself as to lead other persons into the belief that he is a member of the firm, the firm will be bound by his dealings with these persons. Similarly, a non-partner who represents himself, or permits the firm to represent him, as a partner is liable for debts so incurred by the firm. Such tacit recognition or express representation is spoken of as *holding out* the man to be a partner. For the reason named, a retiring partner should give public notice of his retirement, and direct notice to all persons with whom his firm has been accustomed to deal. The omission to give notice would cause persons selling on credit to the continuing partners to believe that they were still trusting the old firm, and would make the retired partner responsible for debts of the new firm. Notice of dissolution is, however, not necessary when a partner dies.

If a *change of personnel* is made in a partnership, creditors of the old firm are not obliged to look to the new firm for payment, except in the case where they have expressly or impliedly agreed to do so. Nor, without agreement again, is a new partner liable for any of the old firm's debts. It is the law, however, that one partner may be called upon himself to pay any or all of such of his firm's debts as were contracted while he was a partner; but, in England, his liability to do so is a *joint liability* with the other partners. This means that, if a creditor of the firm obtains judgment against one of the partners, the creditor cannot succeed in a second action brought for the same debt against another of the partners—not even when the creditor has failed to get satisfaction by his former suit. Also, whenever a partner has been made to pay a debt of his firm, he has a right to contribution from the other members of the firm. And that holds good, too, when a partner suffers losses of other kinds whilst working in the firm's interest. On the other hand,

if a partner, whilst pursuing the firm's business, should inflict any wrong or hurt on an outside person, the firm would be just as liable to make compensation for the injury, as it would be to fulfil a contract that the partner had made in the firm's name.

5. **Limited Partnership.** Since the 1st of January, 1908, it has been possible for a business to be carried on by a "limited partnership," in which one or more of the members are general partners, and one or more limited partners. A *general partner* enjoys similar rights and is subject to similar liabilities as in ordinary partnership. General partners are, therefore, liable to the full extent of the debts that a limited partnership may incur. On the contrary, the rights of a *limited partner* are restricted, and his liability is limited. On becoming a limited partner, he makes a fixed contribution in cash or kind, and he cannot afterwards be called upon for anything more; but, so long as he continues in the position of limited partner, he is not permitted to draw any part of his contribution out. Particulars of every limited partnership must be registered with the Registrar of Joint-Stock Companies, also particulars of any changes that occur in its constitution; and the register is open for inspection by the public.

A limited partner takes no part in the management of the business. He may inspect the firm's books and advise as to its affairs; but he cannot bind the firm. If he dies, or becomes bankrupt or lunatic, such regrettable event is not a cause for dissolution, as it would be in ordinary partnership. Subject to agreement to the contrary, a limited partner may not object to the introduction of a new partner, nor can he dissolve the firm by giving notice; but he may assign his share, the assignee becoming a limited partner in his place. With these and a few further exceptions, the law of ordinary partnership applies. Undertakings of this kind are not, however, numerous—greater attractions being offered by the facilities that now exist for forming private companies with limited liability under the Companies Acts.

6. Joint-Stock Companies. An undertaking like a railway is too large for any person to furnish all the capital it requires, or even for a few persons to throw their resources together and run the business as a partnership concern. At times in the past, and perhaps at first in connection with enterprises of public or semi-public nature, the need arose for capital on a large scale. This caused open appeal to be made for money, as was done when the Bank of England was floated in 1694, to any who were able and willing to subscribe. Those who did subscribe became part-owners of the undertaking for which the appeal was made; and, without acquiring a right to share actively in its management, they yet had a voice in its control. In such conditions and on such lines joint-stock enterprise took shape.

A joint-stock company is a particular kind of corporate body, and for that reason it differs very considerably in its legal constitution from a partnership. The difference exists both in the relation of the body to its own members, and in its relation to persons outside the body who have dealings with it.

(1) *Three Classes of Companies.* According to the way in which they are brought into existence, companies may be classed under three heads—

(i) *Statutory Companies*, or those incorporated by special Act of Parliament, as railway companies, and tramway and gas undertakings not in municipal ownership. The activities in which a statutory company may engage are set out in its special Act or Acts, and the company must confine itself to these. General regulations applicable to this class of company as a whole are contained in the Companies Clauses Act of 1845 and in later supplementary Acts.

(ii) *Chartered Companies*, incorporated by charter granted by the King in Privy Council. Such are the British South Africa Co., the Peninsular and Oriental Steam Navigation Co., and the London Assurance Corporation.

(iii) *Registered Companies*, to which class nearly all trading companies belong. It is with these that the remainder of this chapter is specially concerned. Registered companies are governed by the Companies (Consolidation) Act, 1908, and a few short Acts passed since.

(2) *Incorporation* of a registered company is effected by registering a Memorandum of Association with the Registrar of Joint-Stock Companies in London, Edinburgh, Belfast, or

Dublin, according as the registered office of the company is to be situated in England, Scotland, Northern Ireland, or the Irish Free State. If the application for registration is granted, a certificate of incorporation is issued by the Registrar. The company then comes into being with the legal status of a body corporate. This means that its rights and obligations are distinct from those of its individual members; and that it enjoys continuity of existence, though its members change. A company has a name of its own, and a common seal to be used as the sign of its authority. It can sue and be sued in its own name only; whilst its own assets, and not those of its separate members, are the only property to which creditors of the company may look for payment of their claims.

(3) *Number of Members.* A partnership may, and very frequently does, consist of no more than two members. If engaged in trade, it may have as many as twenty; if in banking, ten; but never more. A company, however, unless it is of the kind called "private company," must have seven members at least. To the number it may have at most, there is no limit except what is self-imposed on the company by its capital arrangements. To be a member and to be a shareholder are usually the same thing, and a shareholder can never have less than one share.

(4) *Share Capital.* The shares into which the capital of a company is divided are fixed in amount, for example, £1, £5, £10, or even £100 each; but £1 shares are much the most common. There may be different classes of shares, such as preference and ordinary, with different rights and conditions attaching to them. A company's capital, to take a usual arrangement, may consist of £100,000 divided into 40,000 6 per cent. preference shares and 60,000 ordinary shares, both of £1 each.

(5) *Limited Liability.* Of all varieties of joint-stock companies, by far the most numerous is that known as a "limited company." The qualifying word does not, however, refer so much to the company itself as to the liability of its members

to contribute to the company's funds. In a company *limited by shares*, the liability of the members to contribute to its funds is restricted or limited to any amounts they may not yet have paid on the shares that they have taken. A partner is liable to the full extent of his firm's debts, and he may himself be sued by the firm's creditors; but a member of a company can never be sued by a creditor of the company. The action must be brought against the company itself. If the shares that a member holds in a limited company are already fully paid, not another penny can be demanded from him. This is a feature of joint-stock ownership that appeals strongly to business proprietors. It induces the members of a partnership to turn themselves for business purposes into a company; or to form the company first and then sell their business to it, retaining for themselves a controlling interest in the company's capital and management.

It is compulsory that "limited" appear as the last word in the name of every company that is not unlimited, unless the company is not run for gain and has obtained licence to dispense with the word. The name of a limited company must appear in full on every place of business of the company, on its letter and bill heads, and on all cheques and bills of exchange signed in the company's name.

(6) *Limited by Guarantee.* This is an alternative method of limiting the liability of members, and is resorted to chiefly when the company is an association without capital and carried on for other purposes than the making of profit to be divided amongst its members. When liability is limited in this way, each member undertakes, should the company be wound up, to contribute to the company's assets what may be required of him, but not more than a specified amount.

(7) *Unlimited Companies.* A company may be such that the liability of its members is not limited. The members are then, in this respect, in the same position as partners, except that theirs is a liability to the company and not to the creditors direct. But companies whose members' liability is unlimited are few in number.

7. **Memorandum and Articles.** Two documents are essential to every registered company's existence—

(1) *The Memorandum of Association* is the basis of a registered company's constitution. It fixes the name of the company; the objects for which the company exists; and, where the company has a capital, the Memorandum fixes the amount and the shares it is divided into. It is by the Memorandum also that the liability of members is limited where that is the case. The document must be signed by seven persons, who thereby become members of the company —but in a "private company" two signatories are sufficient. As the conditions imposed on a company by its Memorandum cannot be altered except with considerable trouble and formality, authority is frequently taken for a larger capital than the company means immediately to employ. Also, the objects specified in the Memorandum are usually set out at great length, and made to include operations that may be undertaken in the future, but that are not in present contemplation. A company is not permitted to engage in any business, or do any act, outside the scope of the powers given to it by its Memorandum. This was explained in Chapter XXIII, Section 5 (2).

(2) *The Articles of Association* of a registered company may be described as regulations for the conduct of the company's affairs as between the company and its members, and between the members and the directors elected by them. The Articles are subject to the provisions of the Memorandum, as the latter contains the fundamental conditions of the company's existence. No regulation in the Articles will be allowed to over-ride any provision in the Memorandum, or to extend or alter the powers granted by it. If a company is to have Articles of its own, these must be signed in the same way as the Memorandum, and be registered at the same time. Every member is entitled to be supplied, on request, with a copy of the Memorandum and Articles at a charge of not more than one shilling. When a company is not given Articles of its own, the model set known as *Table A*

of the Act of 1908 applies. The following short clauses taken from Table A will convey some indication of the kind of regulations that Articles of Association contain—

Article 51.—No business shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business, save as herein otherwise provided three members personally present shall form a quorum.

Article 60.—On a show of hands, every member present in person shall have one vote. On a poll, every member shall have one vote for each share of which he is the holder.

Article 69.—The remuneration of the directors shall from time to time be determined by the company in general meeting.

Article 95.—The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

Article 107.—A balance sheet shall be made out in every year, and laid before the company in general meeting, made up to a date not more than six months before such meeting. The balance sheet shall be accompanied by a report of the directors as to the state of the company's affairs, and the amount which they recommend to be paid by way of dividend, and the amount, if any, which they propose to carry to a reserve fund.

8. The Prospectus and After. (1) *The Prospectus.* Commonly, on the formation of any but a "private company," a prospectus is issued inviting the public to apply for shares in the company's capital. Besides the invitation to apply, the prospectus contains a more or less alluring presentation of the company's initial position and of its prospects. Owing to delusive practices on the part of company promoters, by over-statement and by suppression of facts, Parliament has, at various times and for the protection of the public, made many regulations regarding the issue and contents of prospectuses. It is required, under penalty, that a copy of every prospectus shall be signed by all the directors named in it, and be filed with the Registrar of Companies. In the case of a newly-formed company, the prospectus must contain: (1) a copy of the company's Memorandum; and (2) particulars regarding the directors, their interests, share-qualification, and remuneration. Whether the company is newly formed or not, a prospectus must state, amongst other things, (3) what shares and debentures it has been agreed to issue otherwise than in exchange for cash; (4) who the

vendors are of any property the company has to acquire or pay for; (5) what has been, or is to be, paid in purchase money, the amount for goodwill being shown separately; and (6) what voting rights attach to different classes of shares. If a prospectus is not issued on formation of a company, a *statement in lieu of prospectus* must be filed with the Registrar. Misrepresentation in any prospectus causes directors and others responsible for its publication to become liable for compensation to any person who, through putting faith in the untrue statement, has subscribed to the company's funds and has suffered loss on that account.

(2) *Application, Allotment, and Calls.* When the public is asked to subscribe to a new company's capital, a *minimum subscription* must be named. That is, the prospectus issued must say what part of the capital offered has been fixed as the lowest amount that must be applied and paid for before the directors will proceed to allot any shares to the applicants. When allotment does go forward, there must be filed with the Registrar a statutory declaration that these conditions have been complied with. Only then will the Registrar give a certificate entitling the company to *commence business.* Within a month a return must be made of the allottees and of the shares allotted to each. Thereafter an *annual list of members* and their holdings must be filed.

Subject to the necessity of the advertised minimum subscription being received, it rests with the directors to allot to each applicant the number of shares he has applied for, or any less number they may decide upon, or none at all. As a rule, a deposit is required with the application, say, 2s. 6d. for each £1 applied for; and a further instalment, say, 2s. 6d. again, becomes due on allotment. The remainder is called up as required, perhaps in three more instalments of 5s. each on first, second, and final calls, made at dates fixed by the prospectus or determined upon by the directors afterwards. Forms of application are sent out with the prospectuses distributed; and it is usual for application, allotment, and call moneys to be sent by the subscribers

direct to the company's bankers. The receipts given by the bankers are kept by each subscriber and are surrendered to the company in exchange for a *share certificate* when the certificates are ready.

(3) *Authorized, Subscribed, and Paid-up Capital.* The amount of capital that a company is authorized by its Memorandum to raise is termed its Authorized or Nominal Capital. What part has been allotted is known as its Issued or Subscribed Capital. The sum that has actually been received in respect of capital allotted is called the Paid-up Capital. A member of a company, unlike a partner in a firm, has the right to transfer his shares to someone else, subject to any restrictions that the Articles may impose. " Reserve Capital " is such portion of the authorized capital as has not been called up, and is not to be called up except in the winding up of the company, if it should then be needed.

9. Management of a Company. The management of a company's affairs is entrusted to a small body of directors; but, as the election of directors must usually be made at general meetings of the shareholders, the latter are able by that means to exercise some little control over the directors' actions.

(1) *Meetings.* Within three months of the date when a company limited by shares is entitled to commence business, there must be held the first or *statutory meeting* of its members. At this meeting a report, which is concerned chiefly with the manner of disposal of the company's shares and of the money received for them, must be submitted for discussion. For the future, there must be called an *ordinary general meeting* every year, the business of which is (i) to receive a report of the directors; (ii) to receive and consider a balance sheet certified by the company's auditors and signed by two of the directors; (iii) to declare dividends, if it is so desired and the profits permit; (iv) to elect directors; (v) to elect the auditors for the ensuing year. A provision usual with regard to *voting* is that contained in Article 60 above. By the Companies (Consolidation) Act for some matters, and by the

company's own Articles for others, the sanction of the shareholders must be obtained before the directors can proceed on certain courses. For the purpose of obtaining any such sanction, an *extraordinary general meeting* should be convened, and the resolution to give the required authority should be passed in the manner prescribed for the particular case.

(2) *Directors.* A specified share qualification is, as a rule, required by the Articles for the office of director. Articles also commonly require that directors shall retire by rotation; for example, a third of their number each year. They are then re-elected at the annual meeting, or others are elected in their places. It is, however, within the province of the board of directors to fill any vacancy occurring in the interval. The directors appoint a *secretary* who, as the servant of the directors, takes minutes of the proceedings at meetings of directors and of shareholders; keeps the books that are required by law; and makes the returns that must go periodically to the Registrar of Companies. The secretary also sends notices and dividends to shareholders, submits to the board transfers of the company's shares or other matters requiring the directors' attention, and deals with these according to the instructions given.

(3) *The Auditor* or auditors for the following year should be appointed by the members of the company at each annual meeting. An auditor is responsible to the shareholders and not to the directors. It is his duty to examine the books and accounts of the company and report upon them to the members.

(4) *Books and Inspection.* The books that the law compels a company to keep are—

(i) Minute Book of General and Board Meetings.
(ii) Register of Members.
(iii) Register of Directors and Managers.
(iv) Register of Mortgages and Charges.
(v) Annual List of Members and Summary of Capital, which is a copy of the annual return made to the Registrar, and includes a list of directors and a balance sheet.

Nos. (ii) and (v) must be open for inspection to members of the company free of charge; No. (iv) free to members and to creditors. For inspection by the public, a charge of one shilling may be made; and copies of Nos. (ii) or (v), or extracts from them, must be supplied on request at not more than sixpence for every hundred words. The documents and returns filed in the office of the Registrar of Companies are open for inspection also. Of other books that companies find necessary, mention may be made of the Register of Transfers, and of the Register of Debenture-holders where debentures have been issued.

10. Private Companies. The peculiarities of a private company are that—

(1) It may be formed with only two members instead of the seven required in other cases;

(2) It is prohibited from inviting the public to subscribe to its shares or debentures;

(3) The number of its members must not exceed fifty exclusive of present and past employees;

(4) The right of members to transfer their holdings is restricted;

(5) The company is free from several obligations imposed on other limited companies. For example, it is not required to send a copy of its annual balance sheet to the Registrar. It has no statement in lieu of prospectus to file, no minimum subscription to fix, no certificate authorizing commencement of business to obtain; nor is it required to forward a statutory report to its members, when it calls the statutory meeting.

11. How Companies and Partnerships Differ. The most important differences between a company and a partnership have been referred to in various connections above; but it may be well to summarize them here—

(1) *Formation.* A company comes into existence by the special process of registration under the Companies Acts, by special statute, or by Royal Charter. A partnership is formed simply by agreement between the partners.

(2) *Number of Members.* A company, unless it is a private company, must have at least seven members; but it may have as many more as the extent and sub-division of its capital will allow. A trading partnership cannot consist of more than twenty persons.

(3) *Legal Status.* A company is considered in law to have an existence separate from the persons of whom it is composed. In a partnership, one partner may bind the firm, and any partner may be called upon to pay debts of the firm. But the rights and obligations

of a company are distinct from those of its individual members. Its rights cannot be exercised by, nor its obligations enforced against, the members individually. Only the officers of the company acting in its name can exercise the company's rights; and creditors seeking satisfaction of their claims have only the property of the company to proceed against.

(4) *Limited Liability.* When a company is limited by shares or by guarantee, no member can be made to contribute to the company's assets anything beyond the sum, if any, still unpaid on the shares he has taken or on the guarantee he has given. A partner's liability is unlimited.

(5) *Transferability of Holdings.* The holdings of the members of a company are transferable. A present member may sell out, and the buyer of his shares come in as a new member, without the consent of the other members; but holdings can never be withdrawn and repayment demanded. In a partnership, on the contrary, no new partner can be admitted except with the consent of all existing partners. Moreover, a partner may withdraw, and insist on the firm's assets being realized in order to repay his share of capital.

(6) *Continuity of Existence.* It a member of a company sells his holding, neither his withdrawal, nor the entry of his successor, makes any difference to the existence of the company. In a partnership, death or retirement of a partner is a cause for dissolution.

(7) *Management.* Every partner has the right, unless he agrees otherwise, to take an active part in managing his firm's affairs, but the rights of members of a company to have a say in the company's management are very restricted. They can be exercised in certain ways only, as by formal resolution in general meeting, or by application to the Court in special circumstances.

(8) *Alteration of Constitution.* The constitution of a firm may be changed by agreement amongst the partners; but any alteration of a company's Memorandum which would change its objects, or reduce its capital, or modify the rights attaching to any class of its shares, cannot be made without permission of the Court

(9) *Publicity.* A company, by keeping books open for inspection and by filing returns with the Registrar, is required to make public certain information that, in a firm, the partners would keep to themselves.

12. Bankruptcy. A person is *insolvent* when he is unable to pay what he owes. By a single trader who is insolvent, one of two courses may be taken. He may call his creditors together and offer to come to an arrangement with them, or he may file a petition in bankruptcy asking the Court to make a receiving order against him. The same two courses are open to an insolvent partnership. If the former procedure is taken, and the offer is accepted, it must be embodied in a *deed of arrangement*; but no such arrangement will be

valid unless it is agreed to by a majority in number and in value of the creditors. A deed of arrangement is void also if it is not registered within seven days. An arrangement of this kind is not binding on a dissenting minority of the creditors; so that any of them who prefer it may seek their remedy against the debtor in bankruptcy proceedings. Where no arrangement is effected or attempted, any creditor or creditors whose claims come to £50, or the debtor himself, may file a *petition in bankruptcy*; but a creditor's petition must be made within three months of an act of bankruptcy on the part of the debtor.

A debtor commits an *act of bankruptcy* (1) if he assigns his property for the benefit of his creditors generally; (2) if he makes a fraudulent transfer of any part of his property; (3) if he gives a fraudulent preference to one creditor over another; (4) if he keeps out of the way of his creditors in order to evade their claims; (5) if, under an action in any Court, his goods have been seized, and either sold or held for twenty-one days; (6) if he files a bankruptcy petition against himself; (7) if he fails to comply with the requirements of a " bankruptcy notice " served on him by a creditor who has obtained judgment against him; (8) if he gives notice of suspending payment of his debts.

On the hearing of the petition, the Court appoints an *Official Receiver*, to whom the debtor must render account of all his property. A *Statement of Affairs* must be prepared for submission to the Court, and a day will be fixed for the *public examination* of the debtor. A meeting of creditors will be called by the Official Receiver to consider the Statement of Affairs, and to give the creditors an opportunity, either of accepting an offer of a *composition*—that is, of taking in full satisfaction of their claims so much for every £1 owing—or of agreeing to some scheme other than bankruptcy procedure. If this is done and the Court approves, bankruptcy proceedings will be stayed. If not, the debtor will be adjudged bankrupt by the Court. In any case, a *trustee* will be appointed to whom the debtor's

property will be assigned, and whose duty it will be to realize the debtor's assets, and to distribute the proceeds to the creditors in proportion to their claims. Such distribution is called a *dividend*. There may be one dividend only, or several may be paid before the estate is closed. The trustee must keep accounts of his administration and must make returns to the Board of Trade. A *committee of inspection* may, or may not, be appointed by the creditors to supervise him in his work.

Where it is a firm that is dealt with, each partner will be declared bankrupt separately. The joint property of the firm will be used to meet all claims against the firm; the separate property of each partner to meet the claims against his separate estate. Any surplus on the separate estates will then be applied to the joint debts; or any surplus on the joint estate will be apportioned to the debts of the separate partners.

The trustee must leave with a bankrupt the tools of his trade, and wearing apparel, and bedding, up to the value of £20 in all. He cannot take property in the possession of the bankrupt but belonging to someone else; and earnings of the bankrupt after adjudication may be retained by the bankrupt in so far as they are reasonably necessary for the support of himself and family. Fraudulent preferences will be set aside; also, in certain cases, settlements by which the bankrupt has, prior to adjudication, given portions of his property to others. In bankruptcy, creditors must prove their claims by affidavit in the official form. There are certain *preferential creditors* that must, if possible, be paid in full, first of all. These are: (1) rates and taxes for one year before the receiving order; (2) wages of a clerk or servant for the previous four months up to £50; (3) wages of a labourer for two months up to £25; (4) the full amounts due under the Workmen's Compensation Acts—*see* page 388; (5) National Health Insurance contributions. A landlord may distrain upon the bankrupt's goods for six months' rent. Secured creditors may realize their securities and prove for any balance due to them.

Some time after his public examination, the bankrupt may apply for his *discharge*. If it is granted, he is then free from every debt that was provable in his bankruptcy. But the Court is likely to suspend discharge if his estate will not realize 10s. in the £1, if he has not kept proper books of account, and in many other circumstances. An undischarged bankrupt is liable to imprisonment if he obtains credit to the extent of £10 or upwards without informing the creditors of his position.

13. **Winding Up.** Proceedings in the bankruptcy of individuals and of partnerships are regulated by the Bankruptcy Act of 1914; but companies do not come under that Act's provisions. The process by which the life of a company is brought to a close is called " winding up " or " liquidation," and is governed by the Companies (Consolidation) Act, 1908. Nevertheless, the principles underlying bankruptcy proceedings and winding up are much the same. In both, preferred payments and secured debts are treated in a similar way; and so are fraudulent preferences. In both, debts must be proved, meetings of creditors are held, and " arrangements " may be made. In compulsory winding up there are, petition to the Court, Official Receiver, Statement of Affairs, and Committee of Inspection. With companies, there is, however, no trustee, as a company's assets remain its property to the end. His place is taken by a " liquidator " Another difference is that a company may be wound up for other causes than inability to pay its debts; for example because its objects have been achieved, or because its business has been disposed of; or for the reason that it has never been in a position to commence business at all, because it has never been able to comply with the conditions for the grant of the necessary certificate.

There are three kinds of winding up, namely, (1) by the Court; (2) voluntary; (3) under supervision of the Court. In the first kind, the liquidator is appointed by the Court; in the second, by the company. When a company whose shares are not fully paid is being wound up, present and past

members become liable to contribute to the company's assets. The more important rules as to their liability are as follow—

(1) The liability is for contributions sufficient to pay the company's debts, together with the expenses of winding up, but

(2) No past member is liable to contribute if it is a year or more since he was a member;

(3) No past member is liable in respect of any debt contracted since he ceased to be a member;

(4) No past member is liable unless the Court decides that present members cannot make the contributions required of them;

(5) In a company limited by shares, no contribution shall be required in excess of the amount, if any, unpaid on the contributory's shares;

(6) In a company limited by guarantee, no contribution shall be required in excess of the amount guaranteed by the contributory.

CHAPTER XXVIII

ON STOCKS AND SHARES

1. **Kinds of Shares.** Shares are the fixed, equal, and indivisible parts into which, by the terms of its Memorandum of Association, the capital of a company is divided. Each share is given a distinctive number that serves to identify and describe it when it changes hands. No share can be broken into fractions—even when of large amount a company's shares cannot be dealt in, except in whole numbers. The holder, for example, of ten £50 shares in a banking company would be free to sell one, or two, or three, or more of the ten; but not to sell half a share, or one and three-quarters, or two and two-fifths.

(1) *Preference Shares* entitle the holders to a fixed rate of dividend each year, out of the profits of that year, before the ordinary shares of the company have any dividend declared upon them. When they are *cumulative* preference shares, deficiencies of dividend accumulate from year to year as arrears to be paid off before ordinary shareholders have any claim on profits. Preference shares may, or may not, also entitle the holders to priority over ordinary shareholders for repayment of capital when the company comes to be wound up. Further, there may be different classes of preference shares in the same company, as 6 per cent. Preference and 7 per cent. Preference, or A Preference and B Preference, carrying with them different rights, and probably representing issues made at different dates in the company's history. Lastly, a description such as "5 per cent. participating preference shares" would mean that, when the ordinary shares of the undertaking had received a certain rate of dividend in any year without exhausting the profits earned, then the surplus, if distributed at all, would have to be divided between the preference and the ordinary holdings.

I.—FORM OF SHARE CERTIFICATE.

The Greenstone Manufacturing Company, Limited

(Incorporated under the Companies Acts 1908 to 1917.)

Certificate No. 624

Number of Shares 350

Registered Office: GREENRIDGE WORKS, GREENHILLTOWN.

Share Capital £180,000
divided into 100,000 Ordinary Shares of £1 each
and 80,000 Six per cent. Cumulative Preference Shares of £1 each.

THE Preference Shares carry a preferential right to a cumulative dividend at the rate of Six per cent. per annum and a right to repayment of capital in priority to the Ordinary Shares; but they carry no right to further participation either in profits or assets.

Number Held.	Distinctive Numbers From	Distinctive Numbers To
180	123001	123180
120	164881	165000
50	165326	165375

THIS IS TO CERTIFY THAT *Norman Wilburton Brook* of *Ashlands, Wye Vale Road, Buxton, Merchant,* is the registered holder of *Three hundred and fifty* Six per cent. Cumulative Preference Shares of One pound each fully paid, and numbered as in the margin, of the **GREENSTONE MANUFACTURING COMPANY, LIMITED,** subject to the provisions of the Memorandum and Articles of Association of the Company.

Given under the common seal of the Company this *Tenth* day of *June,* 19—

Thos. Greenhead Smith
E. Verdant Brown } Directors.

The Company's Seal

Emerald G. Stone, Secretary.

NOTE.—No transfer of any of the shares comprised in this certificate will be registered until the certificate has been surrendered to the company.

(2) *Ordinary Shares* rank for dividend after the preference shares, if any of the latter exist in the company in question. Except where the preference are of the participating kind, or where there is also a class of deferred shares, no limit is, as a rule, set to the dividend that may be paid to ordinary shareholders, so long as it is paid out of profits actually made.

When a company that is doing well increases its capital by a further issue of ordinary shares, it is a usual practice to offer the new shares at a premium. Shares of the nominal value of £1, for example, may be offered for subscription at 22s. 6d. or at 25s.; but dividends would be paid on the nominal value only. The issue of shares at a discount is not permitted to registered companies.

(3) *Deferred Shares* are such as have their claim to dividend put back until a certain rate has been paid on the ordinary shares. Sometimes they are called "founders' shares," and, sometimes, "management shares," because they are taken by persons intimately connected with the floating or the working of the company. They are not, however, a common feature of companies' capital arrangements. Where they do exist, they are usually of small nominal value, but carry a right to a large proportionate share of profits. Thus, a company might have 50,000 ordinary shares of £1 each, and 50,000 deferred shares of 1s. each, the latter to take half of the profits remaining after 10 per cent. had been paid on the former. In these circumstances, a distribution of £7,000 would mean £6,000 or 12 per cent. on the ordinary, and £1,000 or 40 per cent. on the deferred.

2. Stock. (1) *How Stock differs from Shares.* Stock is a form of capital which has no division into shares, and no distinctive numbers. The capital of railways and other statutory companies is usually created and issued as stock, and not as shares. Any portion of a company's stock is described simply by its nominal value. Thus, a person may buy or sell, say, £1,124 of Great Western Railway Ordinary Stock, paying or receiving for it, of course, whatever happens to be the market price of the day. In order, however, to

obviate the inconvenience of dealings in awkwardly broken fractions, it is usual for a company to require that transfers of its capital be made in multiples of £1, or 10s., or other minimum amount. Besides the issues of statutory companies, those of governments and municipalities are commonly made in the form of stock. Consols and other British Government stocks are an exception to the practice of permitting dealings only in multiples of a given unit. These stocks may be bought or sold in any odd sums of pounds, shillings, and pence.

(2) *Conversion.* In the case of a registered company, its capital, if it has any, must, in the first instance, be divided into shares. But this arrangement may afterwards be abandoned, if the members of the company so agree; and the shares may be converted into stock, provided they are by that time fully paid. An advantage of the conversion of shares into stock may be illustrated by supposing a prosperous company whose registered £10 share has become worth £47, market value. In such a case, transactions in the shares could take place only in values that are multiples of £47. And, as buyers could not always easily be found who would want just five, or twelve, or twenty times so large a unit, this would hinder free dealing in the company's issues, and to some extent unfavourably affect their price. On the other hand, if the shares, being fully paid, were converted into stock, transactions could be carried through in any amounts that were multiples of £1. As an alternative, the £10 share could be divided into several shares, each of smaller nominal value.

(3) *Kinds of Stock.* British railway capital includes large quantities of preference and of ordinary stocks. The preference stocks, like shares of the same description, have a prior claim to a fixed rate of dividend; but in this class of undertaking the dividend is not a cumulative one. Many of these railways, again, have divided their ordinary stocks into *preferred ordinary* and *deferred ordinary.* The preferred is entitled to a certain rate of dividend each year, if it is earned;

and the deferred to whatever rate any surplus of revenue will then allow to be paid. This division of ordinary stock has arisen in some cases by splitting each £100 into £50 preferred and £50 deferred. In other cases, it has been effected by doubling—by issuing £100 preferred ordinary and £100 deferred ordinary in place of each £100 stock in its original form. The *guaranteed stocks* of British railways rank for dividend in front of preference issues, and are usually cumulative.

3. **Debentures and Debenture Stock.** A *debenture* or *debenture bond* is a written transferable instrument given by a company under its seal in acknowledgment of a loan to the company. The instrument contains an undertaking to pay periodically interest on the loan at a specified rate; and, unless it be an irredeemable debenture, to repay the loan itself, either at a stated time or at such time as the company may determine. A debenture may, and usually does, give the holder, as security in case of default either of principal or interest, a mortgage on the company's land and buildings, and a floating charge on its movable stocks of goods and other changing property. An issue of debentures may be offered at a discount redeemable on a given date at par; or it may be offered at par redeemable at a premium.

Debentures are issued, as a rule, in series of equal amount, commonly £100, or £500, or £1,000 each, and numbered consecutively as shares are. They are offered in the same way as shares, and frequently in the same prospectus. But each holder receives separate single debenture bonds sufficient to make up the amount allotted to him, instead of one certificate for the whole allotment as in the case of shares. The loan may, however, be raised as *debenture stock*, when there will be no series, and no fixed numbers, and only one debenture certificate will be issued for the full amount taken by each debenture stockholder.

Debenture holders are not members of the company. They are merely creditors, secured or unsecured, for loans to the

II.—FORM OF DEBENTURE TO BEARER.

The Greenstone Manufacturing Company, Limited

(Incorporated under the Companies Acts, 1908 to 1917.)

Registered Office: GREENRIDGE WORKS, GREENHILLTOWN

No ___	Issue of £20,000 First Mortgage Debentures to bearer in 200 debentures of £100 each,	£100

carrying interest at the rate of Five per cent. per annum.

DEBENTURE

1. THE GREENSTONE MANUFACTURING COMPANY, LIMITED, hereinafter called "the company," will on the first day of October, 1940, or on such earlier day as the principal moneys hereby secured become payable in accordance with the conditions endorsed hereon, pay to the BEARER on presentation of this debenture the sum of ONE HUNDRED POUNDS.

2. The Company will in the meantime pay interest at the rate of five per cent. per annum on the said sum of One hundred pounds by equal half-yearly payments on the first day of April and first day of October in each year in accordance with the coupons attached hereto.

3. The Company hereby charges with the payments aforesaid its undertaking and all its property whatsoever and wheresoever both present and future.

4. This debenture is issued subject to and with the benefit of the conditions endorsed hereon.

Given under the common seal of the Company this ____ day of ____________, 19..

COMPANY'S SEAL HERE

________________________ } *Directors.*
____

____________________ *Secretary.*

NOTE. This document requires an *ad valorem* stamp.

company; and they have no right to attend the meetings of members, or to vote on the company's affairs generally. They may, however, hold meetings of themselves in regard to their own relations to the company, particularly if the interest due to them is in arrear. When interest is in arrear, they usually have the right to realize their security; but, instead, they commonly have a receiver appointed to take charge of the company's funds and pay their interest thereout. Where a loan has been raised as debenture stock, the property mortgaged as security is, as a rule, conveyed to trustees for the debenture stockholders, and reference to the trust deed is made in the certificates issued for the stock.

4. **Transfers and Dividends.** (1) *Three Classes Again.* According to the procedure to be followed when they change hands, marketable securities have to be classified under three heads again.

(i) *Inscribed Securities.* Until recently, all British Government stock was " inscribed "; that is, the evidence of a holder's title was a record written in a book kept at the Bank of England. No certificate of title was issued to the holder; and when he disposed of his holding, it was necessary that he, or his duly appointed representative, should attend at the Bank and sign an entry of the transfer of the stock. Colonial stocks and some municipal stocks are also of this kind, though the records of these are not in all cases kept at the Bank of England.

(ii) *Registered Securities.* In this country the bulk of stocks and shares are of the " registered " variety; and now Consols and other British Government stocks may be either registered or inscribed, or may even belong to the third class of bearer security mentioned below. For registered stocks and shares, registers of the holders and their holdings are kept at the offices of the companies or other bodies concerned. A certificate of title bearing the name of each holder is issued under the company's seal. Disposal of any holding is effected by the seller and the buyer executing a formal transfer, which is deposited at the office of the company. Transfers

of registered holdings in statutory companies must be made by deed. With registered companies, it depends on the Articles of Association whether a transfer executed under hand only is sufficient or not. But, even when not compulsory, transfer by deed is the method usually followed. The seller's certificate or certificates should be deposited with the company along with the transfer. This is usually done by the stockbroker of the transferee or by the transferee himself. If the transfer is found to be in order, a new certificate is issued to the new member, unless the directors of the company have, by the Articles, power to refuse registration, and have reason in any particular case to exercise that power. It is customary for companies to charge a fee of 2s. 6d. for the registration of a transfer and the issue of the new certificate.

Transfers of stocks and shares are subject to stamp duty. So are certificates to bearer; but certificates to registered holders are not. The form of a share certificate is shown on page 411; of a debenture on page 415; and the common form of transfer deed on page 419.

(iii) *Bearer Securities.* A third type of security is that for which certificates or warrants "to bearer" are issued, transfer being effected merely by the seller handing over the certificate to the buyer. Advantages of bearer securities are the ease with which they may change hands, the want of formality and saving of time in the operation, and, perhaps in some circumstances, the absence of the necessity to disclose to the company who it is that for the time being holds the shares. Disadvantages are that the dividends have to be claimed by the holders, and that the risk of loss by theft is much greater than when the owner of the shares is registered. The holder of a bearer security has usually the right to apply to the company for registration and, on surrender of the bearer certificate, to have a new certificate issued in his name.

(2) *Transmission of Shares* or stock, as distinct from their transfer, takes place on the death of the holder of the shares

or stock, or on his becoming lunatic or bankrupt. In such event, the control of the holding passes by law to his legal representative, who in case of lunacy is his "committee"; in case of bankruptcy, the trustee appointed to take charge of his affairs. If a deceased shareholder has left a will, the executors named in the will are entitled to deal with the holding; but they must first obtain *Probate of the will.* When this has been exhibited to the secretary of the company, he adds their names to the account of the deceased in the company's Register of Members. If the member has died intestate, the person claiming to deal with the holding must obtain and exhibit *Letters of Administration* granting him the power of administering the deceased's estate. Probate or Letters of Administration are the only authoritative evidence that company directors customarily accept for the recognition of the representatives of a member who has died.

(3) *Dividends and Interest.* The name "dividend" is commonly reserved for a distribution on shares or stock, when the distribution depends on profits, so that it cannot be made if sufficient profit for the purpose has not been earned. When the distribution must be made, whether profit sufficient to provide the amount has been earned or not, "interest" is the term that is used. Thus, it is interest that is paid on Government and municipal stocks and on debentures of trading companies. Dividends are paid on preference and ordinary shares.

Where the stock, shares, debentures, or bonds are registered or inscribed, the distribution is made by *dividend or interest warrants* sent to the proprietors through the post, and payable at the company's bankers. But, if the holdings are in the form of bearer securities—a form hitherto more common with foreign securities than with British—the interest must be claimed by the holders, as the Government or company or other body issuing such securities does not know who the holders at any time may be. Government and municipal bonds and company debentures to bearer usually have attached to them *interest coupons* for the amounts to become

III.—FORM OF TRANSFER DEED.

Stamp here

I,

of

in consideration of the sum of

paid by

of

hereinafter called the Transferee ,
Do hereby bargain, sell, assign and transfer to the said Transferee ,

of and in the undertaking called

To hold unto the said Transferee , Executors, Administrators and Assigns, subject to the several conditions on which held the same immediately before the execution hereof, and the said Transferee , do hereby agree to accept and take the said subject to the conditions aforesaid.

As Witness our Hands and Seals this day of in the year of our Lord, One thousand nine hundred and

SIGNED, sealed, and delivered by the above-named in the presence of

Witness's Signature
Address
Occupation

SEAL

SIGNED, sealed, and delivered by the above-named in the presence of

Witness's Signature
Address
Occupation

SEAL

due from period to period. Each coupon is detached at the proper time by the owner, and handed by him to his banker, who collects the amount and credits the owner's account.

Interest on Consols is paid quarterly; but half-yearly payments are much the more usual in other cases, particularly with trading companies. As nearly all companies make up their accounts annually, the full dividend to which their ordinary shareholders are entitled cannot be declared until profits are ascertained at the end of the year. What is called an *interim dividend* is therefore paid at a moderate rate when the first half of the year has passed. A *final dividend* of larger amount will be paid when the annual accounts are completed and it is discovered that profits justify it. In the case of British companies, payment of dividend or interest is commonly made *with income tax deducted*. The tax payable by the shareholders on the income they receive from a company is, for the convenience of the Inland Revenue authorities, collected in one sum from the company, and not in numerous small items from the shareholders individually.

5. **The Stock Exchange.** A market in which stocks, shares, and securities of similar nature are bought and sold is called a Stock Exchange. The Stock Exchange in Capel Court, or Throgmorton Street, London, close to the Bank of England, is by far the most important market of the kind in this country; and more important than those of Paris and New York, which are its nearest rivals. Manchester, Liverpool, Glasgow, Dublin, Birmingham, Leeds, Sheffield, and other smaller cities and towns of the British Isles have stock exchanges of their own. The same is true of the more important cities and towns in other countries where industry is developed.

The Stock Exchange in London was founded as a distinct association about the end of the eighteenth century. Some measure of the lead that it takes over similar institutions in this country may be made by comparing its membership of about five thousand with the hundred or so of Liverpool or of Manchester. London, too, is the most cosmopolitan of

all such exchanges, dealing as it does in securities of governments and commercial undertakings all the world over. Paris comes next in this respect, whilst New York and Berlin have so far found occupation enough with the issues of their own lands.

(1) *The Members.* A stock exchange is not a public market where any buyer of investments may go in and bid. The buying and selling are done by members only, who pay a substantial subscription for the privilege and benefits of membership. In London, but not in any other centre either at home or abroad, the members are divided into (1) jobbers or dealers, and (2) brokers. Just as the underwriters of Lloyd's depend on insurance brokers to bring them business, and as in the profession of the law barristers depend on solicitors for briefs, so the jobbers of the Stock Exchange depend on the brokers, who take orders from the outside public. The jobbers or dealers specialize in different classes of securities, and each group that deals in one class forms a smaller market in itself and keeps to a particular part of the floor of the "House." Thus there are, amongst others, separate groups of dealers for Government and Municipal Stocks, Home Rails, American Rails, Foreign Bonds, Rubber Shares, Industrials, and South African Mining Shares, the last named being frequently spoken of as the "Kaffir Market."

Clerks of dealers and of brokers are allowed membership in one or other of two classes—authorized and unauthorized. Authorized clerks are those empowered to make bargains on the exchange in their employers' names. Members of the Stock Exchange are not permitted to advertise in any way other than by sending circulars to their own clients. But there are "outside brokers" who are not members of the Stock Exchange and whose advertisements may be seen in the newspapers regularly. When these outside brokers have occasion to use the Stock Exchange, they buy and sell as clients of inside brokers. They usually do a legitimate and straightforward business with the public; but a few carry on at different times in different places what are colloquially

termed "bucket shops." Under the guise of adviser and guide on a quick and easy road to fortune, they will for their own gain allure over-trustful members of the public into the devious and uncertain paths of speculating with margins. In threading these tangled tracks, the trustful ones are only too likely to lose the money they take with them, and eventually come out into the open country of disillusionment wiser and sadder for their foolish ventures.

(2) *The Committee.* The Stock Exchange is owned by a company. All the shareholders of the company are members of the House; but all the members of the House are not shareholders in the company. A recent regulation, however, provides that every new member shall acquire at least one share. The members of the Exchange itself must comply with its rules, and a committee of thirty members is elected annually by the whole body to adjudicate in cases of dispute, and to see that the rules are observed by members, and are complied with by the companies, corporations, and governments, whose securities are quoted in the official list. When a member fails to carry out his obligations, he is expelled after being "hammered"—a term which derives its significance from the three taps of a hammer that call for silence when a defaulter is announced. As all bargains made in the House are effected simply by word of mouth, followed by the mere jotting of a pencil memorandum in his "bargain book" by the jobber and by the broker, it is essential that a high standard of honour should be observed between them. These methods would be quite inadequate to the extensive business of such a market were repudiation of oral bargains ever countenanced by the committee.

(3) *Buying and Selling.* A dealer or jobber will "make a price" for a broker who approaches him, and without knowing whether the broker will require him to buy or to sell. The price, therefore, names two figures, as, for example, the price quoted in a share list of 83s. to 84s. for the £1 ordinary shares of Nobel's Explosives, Limited. That price means that there were then dealers willing to buy at £4 3s.

a share and to sell at £4 4s. The difference—in this instance, 1s. a share— is called the "turn of the market" or the "jobber's turn"; and out of this difference the jobber makes his profit. To take another example from the same list, the £1 ordinary shares of Harrods Stores, Limited, are there quoted at $2\frac{7}{8}$ to $3\frac{1}{8}$. Here the mean price of one share is £3 and the margin on each side is rather wide; but a dealer keen to do business would probably make the difference smaller. The jobber is a merchant dealing on his own account in certain classes of stocks. He holds quantities of those stocks in which he professes to deal, or he knows how to obtain them when they are required. And he holds himself out as ready at all times to buy at the market price from the broker whose client wants to sell, or to sell to the broker whose client's order is to buy.

Unlike the jobber, the broker is not a dealer on his own account, but an agent acting for his principal the client, and the broker's remuneration takes the form of a commission that he charges to the client. The following are taken from the scale of minimum commissions chargeable by members of the London Stock Exchange—

British Government Securities Indian Government Securities Metropolitan Consolidated Stocks London County Consolidated Stock	$\frac{1}{8}$	per cent.	on stock
Foreign Government Bonds Foreign Railway and other Bonds to bearer County, Corporation, and Provincial Securities (British, Indian, Colonial, and Foreign)	$\frac{1}{4}$	,,	,,
Bank of England and Bank of Ireland Stock	$\frac{1}{4}$	,,	on money
Registered Stocks (other than Railway Ordinary and Deferred Ordinary)	$\frac{1}{2}$	,,	,,
Railway Ordinary and Deferred Ordinary Stocks—			
Price £10 or under . . .	at discretion		
Over £10 to £25	$\frac{1}{16}$	per cent.	on stock
,, £25 ,, £50	$\frac{1}{8}$	,,	,,
,, £50 ,, £100	$\frac{1}{4}$	,,	,,
,, £100 ,, £150	$\frac{1}{2}$	,,	,,
,, £150 ,, £200	$\frac{3}{4}$	,,	,,
,, £200	1	,,	,,

Shares transferable by deed—

Price	£ s. d. 5 – or under	. . .	at discretion
	£ s. d.		s. d.
Over	5 – to 15 –	. .	1½ a share
,,	15 – ,, 2 – –	. .	3 ,,
,,	2 – – ,, 3 – –	. .	6 ,,
,,	3 – – ,, 4 – –	. .	7½ ,,
,,	4 – – ,, 5 – –	. .	9 ,,
,,	5 – – ,, 7 10 –	. .	1 – ,,
,,	7 10 – ,, 10 – –	. .	1 3 ,,
,,	10 – – ,, 15 – –	. .	1 6 ,,
,,	15 – – ,, 20 – –	. .	2 – ,,
,,	20 – – ,, 25 – –	. .	2 6 ,,
,,	25 – – . .	. .	½ per cent. on money

Small Bargains—Lowest commission chargeable, 2s. 6d.

STOCKBROKERS' CONTRACT NOTE.

J. & W. PUDDLEHOLME,
Stock and Share Brokers.

10 PUDDLE PLACE,
PUDDLINGTON.
18th August, 19...

MR. HY. HAWKINS, PUDDLE BRIDGE.

We have this day BOUGHT on your account, in accordance with your instructions and subject to the rules and regulations of the Puddlington Stock Exchange,

	s. d.	£ s. d.
500 Ordinary Shares in the Puddle Vale Colliery Co., Ltd., @	12 10½	.
Commission . . .	1½	
	13 –	= £325 – –
Contract Stamp . .		1 –
Transfer Stamp and Fee		1 17 6
		£326 18 6

For account 28th August.

J. & W. PUDDLEHOLME,

1s.
CONTRACT
NOTE

Members of the Stock Exchange, Puddlington

A broker who has bought shares or stock for a client, sends the client a Bought Contract Note in the form shown on page 424; and when he has sold for a client he sends a Sold Contract Note in similar form. These notes must bear *ad valorem* revenue stamps, for which the clients pay. The clerks of dealers and brokers meet in a room below the Stock Exchange and each day check off the transactions entered into by their employers on the day before.

(4) *Settlement.* During the war, payment of transactions was required in cash ; but now, as formerly, settlements take place about the middle and the end of every month. Each settlement extends over three days—four in the case of mining shares, which start a day earlier than the others. The first is " contango " or " continuation " day, as explained below. The second is " ticket " or " name " day, when the clerks of members hand over tickets with the names of the buyers of the stocks. The third is " pay day " or " account day." Transactions in certain stocks are subjected to a clearing arrangement whereby intermediate operations drop out, so that the name of the final buyer is passed direct to the original seller for the same account.

(5) " *Bulls* " *and* " *Bears* " In normal times the greater part of Stock Exchange business is of a speculative nature. Buyers of stocks do not always intend to pay for them and take delivery; and sellers do not always intend to carry out their sales. A holder of a given security may sell because the price is at a high level, but he may not wish actually to part with his holding. He expects the price to fall almost at once, and he means then to buy back a similar quantity of the same stock, though not necessarily from the person to whom he made the sale. If he does buy back at a lower figure, he will have nothing to pay for the purchase, and will have to receive in respect of the sale only the difference between the higher and the lower price. In Stock Exchange parlance, such an operator is called a " bear." He is said to " sell for a fall," that is, to sell when the price is high, in order to buy back when it is low.

Another and more numerous kind of speculative operator is called a "bull." He "buys for a rise," that is, he buys expecting the price to rise above the figure he pays and intending to sell again when it does. But the price may not rise as expected; and the operator may for that reason be unwilling to sell before next settling day. At the same time, he may not be in a position to take delivery of the stock, because he cannot pay for it. In such case, he will probably try to find another operator to take delivery temporarily in his place, and he will pay a "contango" or "continuation" commission for this accommodation. The person who "carries over" the stock for him buys it from him at the making-up price of the current account, and agrees to sell it back to him at the same price for payment in the next account. An alternative course for the "bull" operator would be for him to take delivery of the stock in the name of his banker, and to pay for it by borrowing from the bank on a margin of security, as explained in Chapter XXI, Section 4.

Should the "bear" operator be unable to realize his intention of buying back for the same settlement, he will have to part with the stock he sold if he actually possesses it. If, as is more likely, he has none in his possession, he will have to find a dealer to provide it temporarily for him. When there are many "bulls" in the market, he will have no difficulty in effecting the carry-over, and he may even draw "contango" for taking delivery temporarily to accommodate a "bull." But should "bears" preponderate, it will be necessary for him to pay a commission called "backwardation" to the person who lends him the stock he needs. "Bear" operations, however, are more risky than "bull" transactions. For the latter, money can always be borrowed at a price, to pay for stock bought; but, in the former, stock may sometimes be unobtainable to deliver in completion of a sale, or it may be obtainable only at a prohibitive price.

(6) *Other Stock Exchange Terms*—

Stag is the name for a person who has subscribed for a quantity of a new issue of shares, not intending to keep them, but hoping that the price will rise and enable him to dispose of the shares at a profit.

Option is a right which may be exercised or not at the pleasure of the person who has paid a fee to acquire it. The option may be to *buy* so much of a certain stock at an agreed price not later than a specified date. In that case it is termed a "call." Or it may be to *sell* on similar conditions, and then it is termed a "put." When the right is either to buy or to sell, it is said to be a double option, or a "put and call."

Giver and *taker-in*.—A "giver" is a "bull" who causes stock bought by him to be delivered to the "taker-in" who is carrying it over for him.

Scrip.—Correctly, the provisional certificate of title given in respect of a new issue of shares or stock, "scrip" being a contracted form of the word "subscription." More generally, any kind of bearer certificate.

Watered Stock.—Stock representing a company's capital that has been increased without any corresponding addition having been made to the company's assets.

Trustee Stocks.—Securities in which trustees are permitted by law to invest trust funds.

Gilt-edged Securities.—British Government stocks and other investments of first-class quality as regards safety of both capital and interest.

"*Rentes*."—The French term for loans raised by the French Government.

(7) *Official Quotations*. The Stock Exchange issues an official list of the prices of all securities for the quoting of which arrangements have been made by the companies and other bodies that have issued the securities. The official quotation informs the public at about what price a given security can be bought or sold. By so doing, it tends to steady the price and it helps towards free dealing. Not only do securities regularly quoted carry more favour with the investing public and bring better prices than those not so quoted, but new issues are more readily taken up when they are to be subject to these facilities. An official quotation will not, however, be granted unless the security to be quoted has been issued to the public in sufficient quantity to justify the quotation; nor until compliance has been made with the conditions that the Committee of the Stock Exchange has decided upon as pre-requisites to official quotation. These

pre-requisites are intended to satisfy the Committee that the issue of the security, and the rights and conditions attaching to it, shall not be unfavourable to public dealings in it; but they do not in any other way guarantee the quality of the security as an investment. The Committee reserves the right to remove any security from the list in certain circumstances.

The official list is published daily and contains official prices of all the securities named, whether business in them has been done or not during the day of publication. Part of the list contains a record of business actually done and of the prices paid. But it is not every transaction that is thus recorded. The fact of a bargain being recorded depends on whether the broker concerned has it marked or not. A broker will be careful to get the transaction marked for publication if he is wishful that his client should see in the daily Press a record of the price, and should thus be able to verify the figure given in the contract note that the broker sends him.

(8) *Stock Exchanges and the Telegraph.* The stock exchanges of this country are all connected by wire, so that the members of one exchange may learn immediately what is happening on any other. The principal exchanges of the world are in similar touch. Prices, therefore, tend to keep level everywhere; for operators are always ready to take profits by telegraphing buying or selling instructions to agents in other centres when prices are favourable for doing so. The Exchange Telegraph Company's machines deliver automatically in different parts of this country tape records of the prices current in London; and in this way the daily papers obtain their lists. As the cinematograph films in our picture theatres frequently show, these tape machines, or "tickers" as the Americans call them, are much more in evidence in the States than they are here. But "Wall Street," by which name the New York Stock Exchange is known, is of all stock markets in the world the one where the most restless speculative spirit reigns.

Shares of small trading companies as, for example, a brick-making business or a cotton mill, sell most readily on their own local stock exchange. Stocks and shares of undertakings of wider interest, such as banks or steamship lines, or the largest or best known of our constructional works, sell as easily in London as in the provincial centres where the companies chiefly operate. Government stocks and those of our most important railways, and many Colonial investments, sell readily in any centre here; whilst securities of international standing, as French Rentes or Union Pacific Railroad Stock, find a market in London only less active than that of Paris or New York.

(9) *Speculation and Investment.* The speculator has been defined as one who buys and sells securities or commodities for the gains he can make out of changes in price; the investor is he who buys securities for the income they will yield. To the speculator, changes in price are everything. The yield on a security is of little or no account to him, for he never intends to hold the security for any length of time. The investor, on the other hand, looks to the permanency of the yield for an assured income; and, having made his investment, he takes little notice of changes in its price, so long as the income coming from it has the appearance of continuing. But this theoretical line of distinction between investor and speculator is not found to divide them so rigidly in fact. Few investors there are but take some interest in the market price of their investments, and might sell when one security is high in price or buy when another is low. And even the speculator may at times spare a thought for the possibilities or supposed possibilities in dividend-earning capacity of the securities he operates in. With speculation in stocks and shares, as with all activities of the gambling kind, what one operator gains, another loses; so that gains and losses roughly balance when the operators are taken as a whole. But it is the professional manipulator, with his first-hand information and readier means of action, that stands to secure the gains; and it is the outside public, with

later sources of knowledge and slower channels of motion, by whom the losses are likely to be borne.

There is probably not a little truth in the contention that extensive speculative business provides the genuine buyer or seller with a readier market than he could get without it. This, however, does not imply that he finds the market a steadier one than he otherwise would. Pure speculation is not concerned with the permanent merits or demerits of securities, but only with such passing conditions as bring chances of seizing transitory profits. The result is that Stock Exchange prices now and again take wild and heady leaps, and at most times flutter about more changefully than is warranted by any events likely to have lasting effects on the values of particular securities. Yet it is the duty of professional dealers in stocks and shares to provide the means of meeting public needs for acquiring or disposing of investments with every possible facility. So far as these dealers use their expert knowledge to foresee coming tendencies and act accordingly, buying when prices begin to droop and selling when they begin to soar, so far do they exercise on the vagaries of the market a counteracting and steadying influence. And this influence is all to the good when genuine investors want to buy or sell.

CHAPTER XXIX

THE INDUSTRIAL STRUCTURE

1. **Its Modern Growth.** Our commercial and industrial system is to a great extent a growth of recent times. Dates have been named already in passing under review the developments of banking, transport, insurance, and joint-stock enterprise. But these parts of the country's mercantile outfit are only auxiliaries to trade and manufacture. They could expand only as the production and exchange of commodities took on larger proportions, and became more efficient by the adoption of better methods and higher organization.

Before the second half of the eighteenth century, our activities in producing and distributing the essentials of life differed considerably from our corresponding activities to-day. Agriculture, even in its then less developed state, absorbed a greater portion of our energies, because, in comparison with the population, we then grew in our own country more of the food we needed. Clothing was not at that time a factory product as most of it is now; and even spinning and weaving were occupations followed in the home. In those days there were workshops and there was machinery; but machines were much less numerous and, like the hand-loom, they were constructed mostly of wood, only the hard-wearing parts being made of metal. Power was applied to them by the simple device of handle or treadle, or perhaps by water-wheel. We had ships for a foreign and for a coasting trade; but they were smaller and fewer than now. They, too, were built of wood, and they were propelled by wind and sail. Inland transport was effected by road-wagon, or by river navigation where that was possible, for there were neither canals nor railways. The haulage of merchandise and of passengers, which has become an immense and vital part of

the trading system now, was then attempted only on a very limited scale. The stage-coach was the farthest advance made in facilities for travel.

A change came about by the use of pit-coal being extended in two directions simultaneously, the results reached in one direction reacting from time to time on those reached in the other. First, coal was converted into coke, and with its heating properties intensified by the power-blast, it was applied with increasing success to the smelting, casting, and puddling of iron. Mechanical contrivances fashioned in iron or steel began to be employed as machinery to supplant or supplement the old processes of handicraft. Secondly, coal was used to generate steam as the driving power of these new machines, with the result that the heavier tasks became less arduous, the slower ones less tedious, and that bigger and more intricate operations could be undertaken. Between the years 1760 and 1830 so many new ideas were applied to methods of manufacture, and changes so great and disintegrating followed in the condition of the workers, that the period has been called the "industrial revolution." Increasing demand for coal stimulated improvements in the means of getting it. Steam pumping-engines were used to draw off the water that accumulated in the workings of the mines; and it was out of this type that Watt developed between 1763 and 1776 a steam driving-engine for machinery generally.

During this time the old method of spinning had been superseded, and the process greatly speeded up, by the successive inventions of Hargreaves's spinning-jenny, Arkwright's water frame, and Crompton's mule. Before the end of the century, weaving was being done on the power-loom of Cartwright, and hand, horse, or water power was rapidly being abandoned for steam. These inventions quickly caused the long-established domestic industries of the country to decay, and the factory system to spread. Steam power and costly machinery could be provided only by employers possessed of adequate capital; and they could be used to

advantage only in large-scale production, and under a closer organization than was possible where the household was the unit in the manufacturing scheme.

From 1750 onwards, communications were improved by the building of good roads. These were soon followed by the cutting of canals, the Duke of Bridgewater's Canal, completed in 1761 for the carriage of coal from Worsley to Manchester, having demonstrated the advantages of this means of transport. By 1830, when the Liverpool and Manchester Railway was opened, Stephenson had succeeded in developing from the stationary steam-engine a locomotive capable of dragging a short train at a good speed over many miles of specially built rail-track. Iron ships, also driven by steam, had been put to the service of transport by sea, and the era of works and factory, of railway and steamship, had been definitely ushered in.

2. Production and Its Factors. Man has many wants and asks for many things to satisfy them. "Consumption" is the economic term for the using up of wealth in appeasing a want or quenching a desire. Its correlative, "production," refers to the providing of the means. Production may, therefore, be defined in a general way as any activity, or the whole mass of activities, by which man makes provision for the satisfaction of his wants. Such productive activity may take the form of baking us a loaf or singing us a song, of clothing our bodies or healing our disease. In its popular use, the term is confined to the provision of material goods. Such would be the growth of wheat, the rearing of sheep for mutton and for wool, the making of chairs or of boots, the manufacture of glass, or the printing and binding of books But this meaning is not wide enough, as we have many needs other than those for merely material goods. Again, production is not to be confused with creation. Man cannot bring into existence any material thing. He can, however, add utility to one that exists already. It is this latter process that goes by the name of production—the process that changes the situation or the form of things as they are found

in Nature so that they become of service to man. Though not considered a producer in the narrower sense, the boy who delivers the meat for Sunday's dinner is as much engaged in changing the form or situation of Nature's resources as the miner who digs from its subterranean bed the coal that, but for him, would remain unavailable for the supply of heat and power.

What economists call the *agents of production*, or, more intelligibly, the *factors of production*, are usually said to be three in number, namely, Land, Labour, and Capital.

(1) *Land.* That land is an essential factor in production is implied in the statement that man does not create material things, but merely adapts them to his needs. The land furnishes him with sites for his dwellings and workshops, with room in which to move himself about; and, by mining, with minerals and metals that minister directly to his comfort or his vanity, and indirectly as a means to the production of other goods. But the word "land" must here be stretched beyond its ordinary signification, and be taken to include sea, lake, and river; air, rain, and sunshine; and all the forces of Nature other than those that operate only in or through man himself. Earth, moisture, air, and sunshine are together a highly important factor of production, in that their interaction brings about the fertilizing of seeds and the growth of vegetation. Thereby food-stuffs in enormous quantities are obtained for consumption by man and beast, as well as timber, rubber, cotton, and similar commodities for extensive use in manufacture. The sea and inland waters are also important factors in production. Not only are they an inexhaustible source of one variety of food; but they provide a ready means of transport, and thus play no small part in that change of form and situation by which the natural wealth of the earth is exploited for the satisfying of men's wants.

(2) *Labour.* It is only in tropical climates, where Nature is profuse in her bounty, that man can draw his sustenance from the produce of the earth without considerable effort

of his own. In most of the habitable parts of the globe Nature has to be coaxed, guided, and controlled—forced sometimes—into the supplying of our needs. Land in the wider sense indicated above, and the labour of man exerted upon it, are the two indispensable factors in the production of the things we require for our sustenance and pleasure. In the uncivilized state, each man attempts himself to find, or grow, or make, nearly all the things he wants; but eventually he learns that more can be accomplished by co-operation with his fellows than by independent individual action. Labour thus becomes specialized, one man tending more and more to occupy himself with the kind of work in which he is most proficient, and satisfying his desires for other things by exchanging his own products for those of other men exclusively occupied in other pursuits. In that stage of society, as an earlier chapter explains, money is brought into use as a medium of exchange, and as a standard by which to value the various commodities turned out. As machinery comes to be introduced and exchange extended to an increasing variety of goods, the processes of manufacture and of commerce become more specialized and more complicated.

" Labour " has just been defined as a fashioning and controlling activity brought to bear by man on the materials and forces of Nature as they exist apart from himself. All labour, inasmuch as it is human effort, must contain more or less of a conscious, intelligent, and purposeful element. Without this quality in his work, the labourer would be a machine and nothing more, moving just as he was prompted by the mind of another, and without applying to his actions any directing thought of his own. The labourer is never such a machine merely. Still, a large part of the directing and controlling function of the worker has been taken over and specialized in by the employer or manager of labour. For that reason, organization and management—the part contributed by the undertaker or organizer of enterprise, the *entrepreneur* as he is frequently called—is often treated

as a separate agent or factor of production. Nevertheless, it will conduce to clearness and to exactness of analysis if organization and management are looked upon only as work of a specially skilled kind. Labour can then be divided into two main classes—a large class of workers applying various degrees of intelligence to the immediate operations of their hands, directed by a smaller class that plans the work to be undertaken, makes provision for the necessaries wherewith to set about it, supervises its execution, and arranges for the disposal of its product.

(3) *Capital.* Here, again, it is necessary to make some reservation. Capital is not a third factor of production quite distinct from the other two, but is itself a product of these two. The capital of a railway, for example, exists chiefly in the form of permanent way, stations, works, and cabins; engines, wagons, telegraphs, and stores. That of a manufacturer comprises the buildings and machinery of his works, with his stocks of raw materials and of finished goods. Yet all these things are but products of labour expended on the land, or on materials the land provides.

The reason why capital is made to rank as a distinct factor in production is that, before a business of modern magnitude can be set agoing, a large amount of wealth must be spent in equipment and in stocks. The architects or controllers of the enterprise must have in their possession, or must be able to procure, sufficient money or credit to buy the stocks and equipment necessary for making a start and for carrying on. But these necessaries are themselves products of labour, products that have not been consumed, but have been kept to be applied as plant, machinery, tools, and so forth, to the purpose of making further production all the easier. In its stricter economic meaning, capital is conceived as consisting of wealth previously produced, and saved to help in the production of more wealth.

As used by accountants, the term signifies the money or money value that a person possesses in his business at any time. The amount of the capital is represented by the

excess of the business assets over liabilities to outside creditors. Such portion as is sunk in permanent equipment like buildings and machinery is termed the "fixed capital" of the business, whilst that absorbed by floating assets such as stock and book debts is called the "circulating capital." This commercial definition includes land; but the preceding economic one does not, because, except in so far as its natural state has been artificially improved, land is not a product of the labour of man. Further, from the point of view of the investor, a loan to the Government would be capital, because the investor would use the loan, as the trader employs his business capital, to produce an income on which he may live. But, from the national or social point of view, such an investment would not be capital, nor even wealth, if the Government had expended the money in the destructive activities of war, instead of having allowed it to be employed in the fruitful processes of industry as an instrument in the production of new wealth.

3. Kinds of Industry. Economists draw a distinction between *industry* and *commerce*. The former they apply to such activities as mining, building, and manufacture. The latter they reserve for the occupations of buying and selling, of making and receiving payments, for insurance and banking business, and finance. In its everyday use, the word "industry" means attention and application to any task undertaken, whatever the nature of the work may be. It is permissible, therefore, for want of a more suitable term, to employ the word, in the title of this chapter and in the heading of this section, as a name to cover business operations of every kind—to take in, as production in its widest sense also takes in, the sum total of man's exertions in supplying himself with all he needs.

The occupations of mankind are commonly classified thus—

(1) Collecting and extractive industry.
(2) Manufacturing and constructive industry.
(3) Commerce.
(4) Direct services.

and Police, regulations for lighting, sanitation, and so on—in short, the provision of conditions in which it is possible for industry to be conducted with regularity and justice, and without undue hindrance or unnecessary friction.

4. Organization of Industry. Many of the features of industry belonging to this head have been dealt with already in various places. The preceding chapters of the book have been concerned with the *methods* employed in narrower or wider sections of commercial and industrial life. They have treated of office routine and equipment, of organization as applied to the single business, of the legal principles to be observed in bargain-making, the rules to be followed in dealing with such instruments as cheques and bills, the procedure to be taken in importing or exporting goods, the facilities offered by banks and insurance offices, by the railways and the shipping companies, by the Post Office and the Stock Exchange. It is the purpose of this, the final chapter, to gather all these diverse activities together in one general presentation of the industrial structure. Production is essentially co-operative in its methods, and is not merely an agglomeration of independent and unrelated individual efforts. The intention here is to present the many sections of industrial activity as related members of a whole; to show that they must be adapted to each other in such manner that they shall work together more or less successfully, like the co-ordinated parts of a complex machine.

Organization in industry, so far as it has yet been deliberately worked out, is usually a matter of the individual business. There is not, as a rule, any organization embracing the whole of one trade, and there is no complete scheme of regulation under which all the industries of the country are run as a unified system. Apart from the single business, the more efficiently organized parts are the markets that are called exchanges, together with the banking, insurance, and transport institutions of the country. These have been previously described; also the efficiency of machinery

in the increasing of production has been dwelt upon. The principle of the division of labour asserts itself as industry develops, because one business can usually carry on one class of trade more economically than it could several trades of different natures; and because one workman by specializing in one kind of work can do that with more effect than he could perform duties of different kinds.

What may be termed the organization of capital need not again be more than mentioned. It may just be recalled that the smallest businesses are likely to be owned by single persons; the larger ones by two, or three, or more, partners; whilst the largest of all are likely to be constituted as joint-stock companies. This last-named method of finance collects and makes use of many fragments of capital that would otherwise often lie idle for want of ready and suitable openings for their employment. By collecting numerous small deposits and rendering them available in larger masses of credit, the banks perform a similar service to the commercial and industrial world. Exceptional circumstances disregarded, the more capital put into industry, the greater will be the wealth produced. Production will be increased, too, as the efficiency of organization is developed. And, provided it is distributed fairly, the greater the wealth created by a community, the greater will be the physical comforts, and the sentimental or intellectual satisfactions, that the members of that community may enjoy.

5. Competition and Monopoly. Conditions prevailing lately have brought home to us very forcibly the fact that, for many of the commodities sought in satisfaction of our wants, we are prepared to pay much more than the prices asked in pre-war days. Some commodities, it appears, have all along been worth more to us than we used to pay for them. But other kinds were not; for, when one of these could no longer be obtained at the old price, we either found a substitute that was cheaper, or we let the want go unsatisfied. In the language of Political Economy, goods of the former class had for the consumer a ***surplus of utility*** for which he had not been

giving full value in exchange. When it brings goods to market at prices lower than the public could be forced to pay in other circumstances, competition amongst sellers operates to the benefit of the consumer as against the producer. It may be that the competition simply decreases the surplus that would fall to the producer over and above his production costs—that it keeps his profits from swelling to unreasonable dimensions, or that it reduces them, perhaps, to the barest remnant at which he can continue to produce. On the other hand, the competition may cause the processes of manufacture, or those of distribution, to be simplified and cheapened. In so far as it results in the production of as many or more goods with less expenditure of labour than before, it is a benefit that, under a just and efficient system, all classes of society would share in.

As a matter of fact, however, competition becomes so keen and so active, that it often increases very considerably the expenses of distributing commodities. Were a producer to refrain from incurring these high selling expenses, he would fail to lay hold of his share of the trade that was going. Thus are all producers forced to fight for their own; the marketing of their goods is maintained at a costly level, or made more costly still; and the price is probably raised all round. So heavily does this evil result of competition weigh upon producers, that for a long time now a counter tendency has been at work amongst them. By combining, they try to eliminate the evil, to cut down costs, and to keep the savings, or much of the savings, for themselves. But the trouble here again is that, when such a combination enjoys anything like monopoly, it is not, as a rule, easily satisfied in the matter of profits. It may put its prices up against the public in order to make fat salaries for its managers and big dividends for its proprietors. The consumer's surplus would then be eaten into by the producer. He would encroach upon it just so far as he dare without beginning to turn away the demand for the commodity; or he would endeavour to fix his price at that point, where the profit then shown on

each article produced, multiplied by the number in demand at the price, would bring him a greater revenue than he could get by selling at any other price. He would keep prices as high as he could; and this he would do against the interests of the community generally and for the pecuniary gain of only a few of its members.

Combinations for the elimination of competition and for the control of selling prices take various forms. A crude example would be that of a powerful railway which first cut rates against a small competing line; and, having in that way beggared its undesirable neighbour, next proceeded to buy the ruined undertaking up at a fraction of what it had cost to build. Another example would occur where several steamship lines formed themselves into a " ring " and agreed upon the rates that all of them should thenceforth charge. Perhaps they would offer a rebate, payable only after the lapse of twelve months' time, to shippers who were then continuing to use the ring; and would hold the refusal of this rebate as a threat over the heads of any that might desire to change. Again, two or three large works engaged in related processes of industry might amalgamate into one huge self-contained concern; or a dozen or a score of smaller businesses all pursuing the same kind of trade might draw together and form a " combine " under a single board of management. To make the combine a success, it would be necessary to prevail upon all important competitors to join in the new company. And, to induce all to part with the control of their businesses, offers of tempting purchase-prices would be needed. For that reason a combine is likely to be over-capitalized from the start. The very hugeness of the undertaking renders close and careful administration difficult; and the personal interest and incentive that each old proprietor had in his own business is taken away. These conditions work against efficiency in the amalgamated concern, so that the results it achieves in practice are probably very different from those that theory figured out beforehand. One of the most successful movements of this kind is that

which for a generation has been proceeding in the banking system of England.

"Cartel" is the Continental name for an association of manufacturers or others who have joined in a working arrangement for a period. It usually concerns itself chiefly with agreements in regard to selling; and, apart from these agreements, the members of the cartel continue to keep the direction of their properties in their own hands. The looseness of the combination is its weakness and, as one member and then another has or fancies he has cause for dissatisfaction, the association tends to fall asunder. "Trust" is the American term for a permanent combination that concerns itself with control in the production as well as in the marketing of its goods. If, as in the United States, it can carry on its operations behind a tariff that keeps foreign competition out, then it may exploit the consumer's surplus so far and so long as the public will tolerate it, or new internal competition will allow.

None of the attempts to cure the evil and retain the good of competition has been ideally successful. Force of circumstances led this country to appoint a Minister of Transport to control internal transport; but that step has been, in part, retraced. Some other countries took over the ownership and management of their railways years ago. With us the trend of events points towards some State regulation of mines and electricity supply. Municipal control of gas, water, and tramways is already the accepted method of carrying on these undertakings; for one reason, because competing gas-mains or tramway-routes under private ownership could not be permitted within the limited area of an ordinary town; and for another, because municipal enterprises of this kind have turned out well on the whole. The necessity of keeping expenditure within revenue is a strong incentive to efficiency under private ownership; but under State management it loses much of its force. Experience, too, of the wasteful methods of bureaucracy, and of its want of intimate touch with public needs, does not help

confidence to turn as hopefully as might be in this direction. At present, it would seem that, throughout much of the industrial structure, organization of control is in a transition state, and involved in a process of experiment. What more stable or more satisfactory form may yet be set up it is for the future to reveal.

6. Sharing Industry's Output. The output of industry is shared amongst the factors of production. Labour's claim is the most direct; that of land, and that of capital, need some little explanation.

(1) *Labour's Share.* In the imaginary primitive state of man, where the individual himself gathers from Nature all that he wants or can get, the whole product of his industry is his own. But where he lives in organized society and only takes a part in the production of some one class of goods, he is entitled to a share only of the product. For example, if he is engaged in deep-sea fishing, his share will be a portion only of the value of the haul, which others as well as he have helped to take at sea and bring home to port.

The production of coal will serve for further illustration. If land were free to be used by anyone, and if a man could without assistance dig into the earth and extract a quantity of coal, what he got would be all his own. It would be his to burn for warmth, to barter for other desirable things, or to sell for money with which to buy what else he liked. But the coal would probably be so deeply bedded in the earth, and the operations of hewing and raising it so heavy, that the man could not carry them out himself. He would work as one of a gang, and the value of the coal produced by all would be shared by him with his fellow-workers. For the purpose of ensuring harmony and efficiency of effort, the gang would have a leader, whose duty it would be to supervise the operations, co-ordinate the men's individual exertions, and give orders with that end in view. Thereby the gang would work with more unity of aim, and each man's labour would contribute more to the common end. Though the leader himself hewed no coal, but simply watched and

guided, he would perform an important part in the process of production, and would be entitled to a corresponding share of the coal that was won. If, by taking thought about the planning of the workings, or the installing of haulage equipment, or about other matters, he could reduce the expenditure of labour without diminishing the output of coal, all the men would stand to benefit by the exercise of his superior talent. It would be in their own interest to retain and encourage his scheming ability by paying for his services on a higher scale. This does not imply that the *name* "manager" necessarily carries with it a right to more remuneration than the ordinary worker gets. But it does mean that exceptional talent, when *actually* found, either in manager or worker, is worth a higher rate of pay.

But coal, if it remained at the pithead, would be of little use. It has to be screened and sorted for different purposes, loaded into railway trucks, weighed and invoiced, hauled long distances, carted or bagged, and delivered to the users. Every worker, therefore, whose labour goes to help in the distributing of the coal comes in for a part of its selling price. The share of labour, then, in the value of any commodity includes not only the wages of the workers concerned in its more immediate production, but those of all engaged in auxiliary processes and of the other workers who organize and supervise all these activities.

(2) *The Landowner's Share.* Land is a necessary factor in coal production, as it is in regard to commodities of many kinds. But land itself differs from the labourer, in that it does not work to live. The labourer needs wages wherewith to procure things necessary to sustain his life, and he works in order to obtain the wages. Land itself, then, has no claim to share in the product. It is, however, limited in quantity, in a country such as this, at any rate. The air is free and abundant for all men to breathe, and the sea for the ships of any man to sail upon; but land, though a gift of Nature, is not plentiful enough to allow everyone all that he may want of it. Some of the inhabitants of the country

find themselves, therefore, in possession of all the land, whilst the remainder and the majority have none at all.

A person who possesses no land of his own may have the need or the occasion to engage in some kind of production for which land is essential. Should the price he can command for the commodity he produces be such that it leaves him an appreciable surplus over all other costs of production, he will naturally be prepared to part with a portion of this surplus in return for the use of land of the kind he needs. He will, to use common language, be willing to pay *rent* for the land to its owner. Were the owner indifferent about letting his land, the producer would voluntarily press the request to be allowed to pay the rent, if thereby he would be enabled to follow his occupation. And whether the land were in private hands, or administered by the State, would make no difference to the producer's need of it, and his willingness to pay what he could afford for its use.

It is, then, because land is an essential factor in production, and because it is limited in quantity, that the holder of the land finds himself in a position to take toll out of the products of industry—and this, though he takes no active part in the processes of production, and though his land is not reduced in quantity or in value by its being used. For agriculture and for building purposes, his toll is called rent, and is measured by the acre or the yard. In mining operations he is usually paid a *royalty* of so many pence a ton of output. It follows, of course, that where the land is of no use to others, the owner gets no rent; and where it is of exceptional use, or in great demand, as in the centre of a busy city, his rent is high in consequence.

(3) *The Share of Capital.* In the cursory presentation just given of the production of coal, one important element of the process has been left out of view. Ordinarily, before a mine can be got into work, a large expenditure of capital must be made, and the same is commonly true of productive enterprise in other forms. The capital expended in the sinking of the shaft will have its utility entirely exhausted

by the time that the mine is worked out. The capital contributed in the shape of machinery and plant will gradually become exhausted too, as the machinery and plant wear out. Moreover, the shafts and the tunnels, the engines and boilers, pumps and ventilating fans, the cages, tubs, rails, chains, and so on, must all be kept in good going repair. The cost of the gradual exhaustion of the capital laid out, and the costs of repairs of many kinds, must all be recouped out of the value of the coal produced; unless the mine, instead of adding to the wealth of the community, is to swallow up some of the wealth that the community already possesses. The capital used in the mine has been advanced out of wealth previously produced and saved. The owners of this capital are, therefore, entitled to have its equivalent paid back to them out of that new wealth, the production of which gradually uses up the old wealth they advanced.

The shareholders in a colliery company want more, however, than mere repayment of their capital. They expect in the meantime a yearly share of profits, in the shape of dividend or interest. Part of the dividend or interest paid to them resembles the rent paid to the landowner. It is a toll payable to the capital-owner out of the proceeds of industry. Producers pay this rent of capital more or less willingly because, in the industrial system of to-day, capital is an essential of production; and because, like land, the quantity available is limited and appropriated. Another part of the dividend expected is usually looked upon as compensation for the risk of the capital being lost, a risk that is always present in greater or less degree in commercial and industrial ventures. A third part may be considered as payment for organizing ability, if the owners of the property do in fact exercise such ability to any extent without other recompense.

There are, therefore, three sets of claims to shares in industry's output—(1) those of labour of all kinds including the labour of the organizer and the manager; (2) those of the owners of land for rent or royalty; (3) those of the

capitalist for renewal of exhausted capital and for dividend or interest. With them must be placed the claims of the Government and the municipality for contribution to the costs of law and order. What share finds its way to one factor or another depends on how much, according to the constitution of society, that factor is in a position effectually to demand. Of the struggle that goes on between the managing class and the labouring class about the division of the produce, the community as consumer cannot be expected to remain a quiet and disinterested spectator. It seems unreasonable that society at large should suffer interruption of the necessaries and amenities of life because two sections of a trade cannot come to terms for working amicably together. From the public point of view, each section is entitled to whatever share it can make out a just claim for, with all the varied circumstances kept in view. And, sooner or later, there must be set up for every trade some permanent adjudicative machinery, by appeal to which disputes may be settled as fairly as possible, without recourse being had to the rough argument of strike or lock-out. After all, a community's aims are simply to supply itself with the things its members need for comfort and contentment. With all the members willing to share in the necessary work of providing these things, it should not be beyond their collective wisdom to devise means for allotting to each a fair and acceptable share of the output of the whole.

APPENDIX

I

BRITISH DECIMAL COINAGE

THE following table shows a proposed scheme of decimal coinage agreed upon in joint conference by the Institute of Bankers, the Association of Chambers of Commerce, and the Decimal Association. It is suggested that the £ sterling be retained, unchanged in weight and fineness, as the monetary unit, because of its use throughout the world in the settlement of international transactions. This is considered to be of greater importance than the retention of the penny.

TABLE OF COINS.

	Coins.	Value in £	Value in Mils.	Equivalent Value in Present Currency.
Gold or Notes	Sovereign	1·000	1,000	Sovereign
	Half-sovereign	·500	500	Half-sovereign
Silver	Double Florin	·200	200	Two Florins
	Florin	·100	100	Florin
	Half Florin or Shilling	·050	50	Shilling
	Quarter Florin	·025	25	Sixpence
Nickel	10 Mil Piece	·010	10	2·4 pence
	5 Mil Piece	·005	5	1·2 pence
Bronze	4 Mil Piece	·004	4	·96 pence
	3 Mil Piece	·003	3	·72 pence
	2 Mil Piece	·002	2	·48 pence
	Mil Piece	·001	1	·24 pence

A comparison of the foregoing table of coins with those of our present system will show that—

(*a*) The crown, half-crown, and threepenny-piece are

eliminated; but, pending the withdrawal of the two former from circulation, they would be exactly expressed as 250 and 125 mils respectively.

(*b*) All our other gold and silver coins are retained without alteration in their present values.

(*c*) Two nickel coins are introduced. All risk of their being confused with our silver coins could be obviated by their having a scalloped edge or by other suitable variation of outline so as to facilitate identification by touch.

(*d*) Notwithstanding the provision of an enlarged range of low-value coins (so as to make possible a greater variety of prices in articles of low value), the *total* number of coins would not be greater than that of our present system.

Accounts.

The high value of the £ sterling renders it necessary to employ a third figure after the decimal point, in order to express any value lower than the equivalent of about 2¼ pence or 10 mils. This disadvantage is more apparent than real; for, on comparing the above "£-mil" system with the coinage of other countries, we find that, while it involves one more figure *after* the decimal point, it saves one or more figures *before* the decimal point.

The total number of figures required to express any given amount in pounds and mils would thus never be greater and would usually be less than that required to express the equivalent value in other coinages.

It would furthermore be practicable, although, of course, not compulsory, to continue our present three-column method of cash entry, in which case *no decimal point* need appear in our account books, as the existing cash columns—named *£ f. m.* instead of *£ s. d.*—would conveniently separate the pounds from the florins and the florins from the mils.

The example on the next page illustrates this feature and also demonstrates that for sums of less than a pound it would

be unnecessary to enter the figure 0 *before* the integer in the mils column.

EXAMPLE.

£		£	f.	m.
1·250	=	1 .	2	50
1·025	=	1 .	–	25
·005	=			5
2·280	*Totals* .	2	2	80

NOTE.—The "florins" column would never contain more than one figure and the "mils" column never more than two figures. Compare this with the present possibility of two figures in the "shillings" column and four figures in the "pence" column. For example—although the expression £1·948 involves the maximum of three figures after the decimal point, its equivalent in our present system, viz., £1 18s. 11½d. requires the use of six (*i.e.*, twice as many) figures after the unit. The former expression, besides being much shorter, has the further advantage that, as all the figures are in decimal relation, they may be added, multiplied, and so on, by simple arithmetic instead of the compound arithmetic required by our present system.

HOW THE CHANGE CAN BE EFFECTED.

As to the machinery for giving effect to this reform, it has been shown above that many of our existing coins could be left in circulation, but it will be understood that each would be described, for purposes of account, by its equivalent value in mils.

The redundant silver coins (crown, half-crown, and threepenny piece) would be withdrawn from circulation. The new range of mil pieces of values lower than our present sixpenny piece would be issued through the banks and Post Offices *in exchange for* our present bronze coins at the rate of 25 mils (in any desired variety of new coins) for each sixpennyworth of "coppers" (made up of pennies, halfpennies, and farthings in any proportion).

All pennies, halfpennies, and farthings *not so exchanged* would pass as 4, 2, and 1 mils respectively until withdrawn from circulation.

In all new issues of coins, their respective values in mils should be stamped upon them in figures (*e.g.*, "ONE FLORIN OF 100 MILS").

II.

EXTRACTS FROM THE REPORT

OF THE

COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES AFTER THE WAR.

THE CURRENCY SYSTEM BEFORE THE WAR.

2. Under the Bank Charter Act of 1844, apart from the fiduciary issue of the Bank of England and the notes of Scottish and Irish Banks of Issue (which were not actually legal tender), the currency in circulation and in Bank reserves consisted before the war entirely of gold and subsidiary coin or of notes representing gold. Gold was freely coined by the Mint without any charge. There were no restrictions upon the import of gold. Sovereigns were freely given by the Bank in exchange for notes at par value, and there were no obstacles to the export of gold. Apart from the presentation for minting of gold already in use in the arts (which under normal conditions did not take place) there was no means whereby the legal tender currency could be increased except the importation of gold from abroad to form the basis of an increase in the note issue of the Bank of England or to be presented to the Mint for coinage, and no means whereby it could be diminished (apart from the normal demand for the arts, amounting to about £2,000,000 a year, which was only partly taken out of the currency supply) except the export of bullion or sovereigns.

3. Since the passing of the Act of 1844 there has been a great development of the cheque system. The essence of that system is that purchasing power is largely in the form of bank deposits operated upon by cheque, legal tender money being required only for the purpose of the reserves held by the banks against those deposits and for actual public circulation in connection with the payment of wages and retail transactions. The provisions of the Act of 1844 as applied to that system have operated both to correct unfavourable exchanges and to check undue expansions of credit.

4. When the exchanges were favourable, gold flowed freely into this country and an increase of legal tender money accompanied the development of trade. When the balance of trade was unfavourable and the exchanges were adverse, it became profitable to export gold. The would-be exporter bought his gold from the Bank of England and paid for it by a cheque on his account. The Bank obtained the gold from the Issue Department in exchange for notes taken out of its banking reserve, with the result that its liabilities to depositors and its banking reserve were reduced by an equal amount, and the ratio of reserve to liabilities consequently fell. If the process was repeated sufficiently often to reduce the ratio in a degree considered dangerous, the Bank raised its rate of discount. The raising of the discount rate had the immediate effect of retaining money here which would

otherwise have been remitted abroad and of attracting remittances from abroad to take advantage of the higher rate, thus checking the outflow of gold and even reversing the stream.

5. If the adverse condition of the exchanges was due not merely to seasonal fluctuations, but to circumstances tending to create a permanently adverse trade balance, it is obvious that the procedure above described would not have been sufficient. It would have resulted in the creation of a volume of short-dated indebtedness to foreign countries which would have been in the end disastrous to our credit and the position of London as the financial centre of the world. But the raising of the Bank's discount rate and the steps taken to make it effective in the market necessarily led to a general rise of interest rates and a restriction of credit. New enterprises were therefore postponed and the demand for constructional materials and other capital goods was lessened. The consequent slackening of employment also diminished the demand for consumable goods, while holders of stocks of commodities carried largely with borrowed money, being confronted with an increase of interest charges, if not with actual difficulty in renewing loans, and with the prospect of falling prices, tended to press their goods on a weak market. The result was a decline in general prices in the home market which, by checking imports and stimulating exports, corrected the adverse trade balance which was the primary cause of the difficulty.

6. When apart from a foreign drain of gold, credit at home threatened to become unduly expanded, the old currency system tended to restrain the expansion and to prevent the consequent rise in domestic prices which ultimately causes such a drain. The expansion of credit, by forcing up prices, involves an increased demand for legal tender currency both from the banks in order to maintain their normal proportion of cash to liabilities and from the general public for the payment of wages and for retail transactions. In this case also the demand for such currency fell upon the reserve of the Bank of England, and the Bank was thereupon obliged to raise its rate of discount in order to prevent the fall in the proportion of that reserve to its liabilities. The same chain of consequences as we have just described followed and speculative trade activity was similarly restrained. There was therefore an automatic machinery by which the volume of purchasing power in this country was continuously adjusted to world prices of commodities in general. Domestic prices were automatically regulated so as to prevent excessive imports; and the creation of banking credit was so controlled that banking could be safely permitted a freedom from State interference which would not have been possible under a less rigid currency system.

7. Under these arrangements this country was provided with a complete and effective gold standard. The essence of such a standard is that notes must always stand at absolute parity with gold coins of equivalent face value, and that both notes and gold coins stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all countries possessing an effective gold standard are maintained at or within the gold specie points.

Changes which have Affected the Gold Standard during the War.

8. It will be observed that the fall in a number of the foreign exchanges below the old export specie points which has taken place since the early part of 1915 is not by itself a proof that the gold standard has broken down or ceased to be effective. During the present war the depredations of enemy submarines, high freights, and the refusal of the Government to extend State insurance to gold cargoes have greatly increased the cost of sending gold abroad. The actual export specie point has, therefore, moved a long way from its old position. In view of our enormous demands for imports, coupled with the check on our exports due to the war, it was natural that our exchanges with neutrals should move towards the export specie point Consequently, the fall in the export specie point would by itself account for a large fall in our exchange rates. Such a fall must have taken place in the circumstances, even though all the conditions of an effective gold standard had been fully maintained.

9. The course of the war has, however, brought influences into play in consequence of which the gold standard has ceased to be effective. In view of the crisis which arose upon the outbreak of war, it was considered necessary, not merely to authorize the suspension of the Act of 1844, but also to empower the Treasury to issue currency notes for one pound and for ten shillings as legal tender throughout the United Kingdom. Under the powers given by the Currency and Bank Notes Act, 1914, the Treasury undertook to issue such notes through the Bank of England to bankers, as and when required, up to a maximum limit not exceeding for any bank 20 per cent. of its liabilities on current and deposit accounts. The amount of notes issued to each bank was to be treated as an advance bearing interest at the current bank rate.

10. It is not likely that the internal demand for legal tender currency which was anticipated at the beginning of August, 1914, would by itself have necessitated extensive recourse to these provisions. But the credits created by the Bank of England in favour of its depositors under the arrangements by which the Bank undertook to discount approved bills of exchange and other measures taken about the same time for the protection of credit caused a large increase in the deposits of the Bank. Further, the need of the Government for funds wherewith to finance the war in excess of the amounts raised by taxation and by loans from the public has made necessary the creation of credits in their favour with the Bank of England. Thus, the total amount of the Bank's deposits increased from, approximately, £56,000,000 in July, 1914, to £273,000,000 on the 28th July, 1915; and, though a considerable reduction has since been effected, they now (15th August) stand as high as £171,870,000. The balances created by these operations passing by means of payments to contractors and others to the joint stock banks have formed the foundation of a great growth of their deposits which have also been swelled by the creation of credits in connection with the subscriptions to the various War Loans. Under the operation of these causes, the total deposits of the banks of the United Kingdom (other than the Bank of

England) increased from £1,070,681,000 on the 31st December, 1913, to £1,742,902,000 on the 31st December, 1917.

[This process has had results of such far-reaching importance that it may be useful to set out in detail the manner in which it operates. Suppose, for example, that in a given week the Government require £10,000,000 over and above the receipts from taxation and loans from the public. They apply for an advance from the Bank of England, which by a book entry places the amount required to the credit of Public Deposits in the same way as any other banker credits the account of a customer when he grants him temporary accommodation. The amount is then paid out to contractors and other Government creditors, and passes, when the cheques are cleared, to the credit of their bankers in the books of the Bank of England—in other words, is transferred from Public to "Other" Deposits, the effect of the whole transaction thus being to increase by £10,000,000 the purchasing power in the hands of the public in the form of deposits in the Joint-Stock Banks and the bankers' cash at the Bank of England by the same amount. The bankers' liabilities to depositors having thus increased by £10,000,000 and their cash reserves by an equal amount, their proportion of cash to liabilities (which was normally before the war something under 20 per cent.) is improved, with the result that they are in a position to make advances to their customers to an amount equal to four or five times the sum added to their cash reserves, or, in the absence of demand for such accommodation, to increase their investments by the difference between the cash received and the proportion they require to hold against the increase of their deposit liabilities. Since the outbreak of war it is the second procedure which has in the main been followed, the surplus cash having been used to subscribe for Treasury Bills and other Government securities. The money so subscribed has again been spent by the Government and returned in the manner above described to the bankers' cash balances, the process being repeated again and again until each £10,000,000 originally advanced by the Bank of England has created new deposits representing new purchasing power to several times that amount. Before the war these processes, if continued, compelled the Bank of England, as explained in paragraph 6, to raise its rate of discount, but, as indicated below, the unlimited issue of Currency Notes has now removed this check upon the continued expansions of credit.]

11. The greatly increased volume of bank deposits, representing a corresponding increase of purchasing power and, therefore, leading in conjunction with other causes to a great rise of prices, has brought about a corresponding demand for legal tender currency which could not have been satisfied under the stringent provisions of the Act of 1844. Contractors are obliged to draw cheques against their accounts in order to discharge their wages bill—itself enhanced on account of the rise of prices. It is to provide this currency that the continually growing issues of Currency Notes have been made. The Banks instead of obtaining notes by way of advance under the arrangements described in paragraph 9 were able to pay for them outright by the transfer of the amount from their balances at the Bank of England to the credit of the Currency Note Account and the circulation of the notes continued to increase. The Government subsequently, by substituting their own securities for the cash balance so transferred to their credit, borrow that balance. In effect, the banks are in a position at will to convert their balances at the Bank of England enhanced in the manner indicated above into legal tender currency without causing notes to be drawn, as they would have been under the pre-war system, from the banking reserve of the Bank of England, and compelling the Bank to apply the normal safeguards against excessive expansion of credit. Fresh legal tender currency is thus continually being issued, not, as formerly, against gold, but against Government securities. Plainly, given the necessity for the creation of bank credits in favour of the Government for the purpose of financing war expenditure, these issues could not be avoided. If they had not been made, the banks would have been unable to obtain legal tender with which to meet cheques

drawn for cash on their customers' accounts. The unlimited issue of currency notes in exchange for credits at the Bank of England is at once a consequence and an essential condition of the methods which the Government have found necessary to adopt in order to meet their war expenditure.

12 The effect of these causes upon the amount of legal tender money (other than subsidiary coin) in bank reserves and in circulation in the United Kingdom are shown in the following paragraph.

13. The amounts on the 30th June, 1914, may be estimated as follows—

	£
Fiduciary Issue of the Bank of England . .	18,450,000
Bank of England Notes issued against gold coin or bullion	38,476,000
Estimated amount of gold coin held by Banks (excluding gold coin held in the Issue Department of the Bank of England) and in public circulation	123,000,000
Grand total	£179,926,000

The corresponding figures on the 10th July, 1918, as nearly as they can be estimated, were—

Fiduciary Issue of the Bank of England . .	18,450,000
Currency Notes not covered by gold . .	230,412,000
Total Fiduciary Issues	£248,862,000
Bank of England Notes issued against coin and bullion	65,368,000
Currency Notes covered by gold . . .	28,500,000
Estimated amount of gold coin held by Banks (excluding gold coin held by Issue Department of Bank of England), say	40,000,000
Grand total	£382,730,000

There is also a certain amount of gold coin still in the hands of the public which ought to be added to the last-mentioned figure, but the amount is unknown.

14. As Bank of England notes and currency notes are both payable at the Bank of England in gold coin on demand, this large issue of new notes, associated, as it is, with abnormally high prices and unfavourable exchanges, must have led under normal conditions to a rapid depletion, threatening ultimately the complete exhaustion, of the Bank's gold holdings. Consequently, unless the Bank has been prepared to see all its gold drained away, the discount rate must have been raised to a much higher level, the creation of banking credit (including that required by the Government) would have been checked, prices would have fallen and a large portion of the surplus notes must have come back for cancellation. In this way an effective gold

standard would have been maintained in spite of the heavy issue of notes. But during the war, conditions have not been normal. The public are content to employ currency notes for internal purposes, and, notwithstanding adverse exchanges, war conditions interpose effective practical obstacles against the export of gold. Moreover, the legal prohibition of the melting of gold coin, and the fact that the importation of gold bullion is reserved to the Bank of England, and that dealings in it are limited, have severed the link which formerly existed between the values of coin and of uncoined gold. It is not possible to judge to what extent legal tender currency may, in fact, be depreciated in terms of bullion. But it is practically certain that there has been some depreciation, and to this extent therefore the gold standard has ceased to be effective.

Restoration of Conditions Necessary to the Maintenance of the Gold Standard Recommended.

15. We shall not attempt now to lay down the precise measures that should be adopted to deal with the situation immediately after the war. These will depend upon a variety of conditions which cannot be foreseen, in particular the general movements of world prices and the currency policy adopted by other countries. But it will be clear that the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay. After the war, our gold holdings will no longer be protected by the submarine danger, and it will not be possible indefinitely to continue to support the exchanges with foreign countries by borrowing abroad. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be very grave danger of a credit expansion in this country and a foreign drain of gold which might jeopardize the convertibility of our note issue and the international trade position of the country. The uncertainty of the monetary situation will handicap our industry, our position as an international financial centre will suffer, and our general commercial status in the eyes of the world will be lowered. We are glad to find that there was no difference of opinion among the witnesses who appeared before us as to the vital importance of these matters.

Paragraphs 16 to 34

(as condensed in the Summary at the end of the Report).

The pre-requisites for the restoration of an effective gold standard are—

(*a*) The cessation of Government borrowing as soon as possible after the war. We recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt. (Paras. 16 and 17.)

(*b*) The recognized machinery, namely, the raising and making effective of the Bank of England discount rate, which before the war

operated to check a foreign drain of gold and the speculative expansion of credit in this country, must be kept in working order. This necessity cannot, and should not, be evaded by any attempt to continue differential rates for home and foreign money after the war. (Paras. 18 and 19.)

(c) The issue of fiduciary notes should, as soon as practicable, once more be limited by law, and the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department should be terminated at the earliest possible moment. Subject to transitional arrangements as regards Currency Notes and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England. The Notes should be payable in London only and should be legal tender throughout the United Kingdom. (Paras. 20 and 21.)

As regards the control of the Note Issue, we make the following observations—

(1) While the obligation to pay both Bank of England Notes and Currency Notes in gold on demand should be maintained, it is not necessary or desirable that there should be any early resumption of the internal circulation of gold coin. (Para. 23.)

(2) While the import of gold should be free from all restrictions, it is convenient that the Bank of England should have cognizance of all gold exports and we recommend that the export of gold coin or bullion should be subject to the condition that such coin and bullion has been obtained from the Bank for the purpose. The Bank should be under obligation to supply gold for export in exchange for its notes. (Para. 24.)

(3) In view of the withdrawal of gold from circulation, we recommend that the gold reserve of the country should be held by one central institution and that all banks should transfer any gold now held by them to the Bank of England. (Para. 25.)

Having carefully considered the various proposals which have been placed before us as regards the basis of the fiduciary note issue (paras. 26 to 31), we recommend that the principle of the Bank Charter Act, 1844, should be maintained, namely, that there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold. The separation of the Issue and Banking Departments of the Bank of England should be maintained, and the Weekly Return should continue to be published in its present form. (Para. 32.)

We recommend, however, that provision for an emergency be made by the continuance in force, subject to the stringent safeguards recommended in the body of the Report, of Section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit. (Para. 33.)

We advocate the publication by the banks of a monthly statement in a prescribed form. (Para. 34.)

AMOUNT OF FIDUCIARY NOTE ISSUE AND GOLD RESERVE.

35. Having come to the conclusion that the amount of the fiduciary issue should, subject to what was said in paragraph 33, be fixed by law at some definite amount, we have next to consider how large this fiduciary issue ought to be.

Assuming the restoration of an effective gold standard, and given the conventional standards of banking practice and the customs of the public as regards the use of currency, the amount of legal tender currency (other than subsidiary coin) which can be kept in circulation, including the currency holdings of the banks and the Banking Department of the Bank of England, will determine itself automatically, since, if the currency becomes redundant, the rate of discount will fall, and prices will rise; notes will be presented in exchange for gold for export and the volume of the currency will be reduced *pro tanto*. If, on the other hand, the supply of currency falls below current requirements, the rate of discount will rise, prices will fall, gold will be imported, and new notes taken out in exchange for it.

36. Under the arrangements which we contemplate, virtually the whole amount of the currency gold in the country will be held in a central reserve at the Bank of England; and the circulation, in the wide sense in which we are using the term, will consist (apart from the subsidiary currency, which we need not now consider) in part of fiduciary notes and, as regards the balance, of notes covered by that reserve. The total circulation being automatically determined, it will follow that the higher the amount fixed for the fiduciary issue, the lower will be the amount of the covered issue and, consequently, of the central gold reserve and *vice versa*, while, if the fiduciary issue were fixed at a figure which proved to be higher than the total requirements of the country for legal tender currency, the covered issue, and with it the central gold reserve, would disappear altogether. It is clear, therefore, that the amount of the fiduciary issue must be fixed at a figure low enough to make sure, not merely that there will always be some covered issue, but that there will always be a covered issue of sufficiently substantial amount to secure that the covering gold which constitutes the central reserve never falls so low as to give rise to apprehension as to the stability of the gold standard.

37. If the post-war requirements proved to be no larger than the pre-war requirements (about £180,000,000, exclusive of subsidiary coin, as shown in paragraph 13), it is clear that the present fiduciary issue of £249,000,000 would have to be reduced by £69,000,000 before any gold could be retained in the central reserve at all. Even upon the supposition that the policy of substituting notes for all gold outside that reserve is completely successful, in order to have a central gold reserve of £100,000,000 the fiduciary issue would have to be reduced to £80,000,000 and, even so, we should have £60,000,000 less gold in the country than before the war.

38. The pre-war requirements, however, had relation to the level of pre-war world prices, the existing conventional standards in regard to banking reserves, and the habits of the people, both in regard to the amounts of money which they carried in their pockets and kept

in their homes and to the use of credit instruments in place of cash. It is probable that after the war world prices will stand for many years, if not permanently, at a greatly enhanced level, and that the banks may well find it desirable to adopt a higher standard for their holdings of legal tender money. Furthermore, any additional economy in the use of legal tender money which may take place through the extended use of bankers' cheques and other credit instruments may be more than offset by the fact that a larger share of the national income is likely to be enjoyed by the wage-earning classes who are the chief users of legal tender money. All these causes will tend to increase the amount of legal tender money which the country will, consistently with the maintenance of a gold standard, be able to retain in bank reserves and general circulation to a point much above the pre-war figure, but the precise amount of the increase can only be determined by experience.

39. Until such experience has been gained, it would in our opinion be dangerous to seek to lay down any precise figure for the fiduciary issue. The adoption of an unnecessarily low figure would result in the accumulation of a gold reserve of larger dimensions than is strictly necessary for the protection of the gold standard and the security of our national credit—a luxury which we shall be ill able to afford in the difficult times which are ahead—while the adoption of too high a figure would destroy the gold standard altogether.

40. It, therefore, seems desirable to approach the problem from the other end, and to attempt to fix tentatively the amount which we should like to see held in gold in the central reserve, leaving the ultimate dimensions of the fiduciary issue to be settled as the result of experience at the amount of fiduciary notes which can be kept in circulation—in banking reserves (including the Banking Reserve of the Bank of England), and in the pockets of the people—without causing the central gold reserve to fall appreciably below the amount so fixed.

41. The pre-war gold reserves were about £38,500,000 in the Bank of England and an amount estimated at £123,000,000 in the banks and in the pockets of the people. If the actual circulation of gold coin ceases and the whole of the gold is concentrated in the central institution, some economy is permissible in view of its increased mobility. On the other hand, the aggregate amount of currency required will undoubtedly be larger. We accordingly recommend that the amount to be aimed at in the first instance as the normal minimum amount of the central gold reserve should be £150,000,000, and that, until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for a period of at least a year, the policy of reducing the uncovered note issue as and when opportunity offers should be consistently followed. In view of the economic conditions which are likely to follow the restoration of peace, it will be necessary to apply this policy with extreme caution and without undue rigidity. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000, the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists.

Reduction of Present Currency Note Issue During Interim Period.

42. If these arrangements are adopted, there will be an interim period beginning after the completion of demobilization, during which it is probable that the present issue of currency notes will have to be gradually reduced until experience has shown what amount of fiduciary notes can be kept in circulation consistently with the maintenance of this reserve. It was suggested to us in evidence that, until that amount has been ascertained, steps should be taken as soon as possible after the war to reduce the uncovered issue at the rate of not less than 3 per cent. per annum of the outstanding amount, and that, subject to arrangements for meeting a temporary emergency, the issue in any period of six months or one year should not be allowed to exceed the amount outstanding in the preceding similar period. We think that it would be highly desirable to aim at a steady and continuous reduction, but we are disposed to doubt whether it will be found to be practicable to work to any precise rule We confine ourselves therefore to the general recommendation of policy indicated above. We entirely concur, however, in the suggestion that, when reductions have taken place, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements proposed in paragraph 33.

Transitional Arrangements Pending Replacement of Currency Note Issue by a Bank of England Issue.

43. It remains for us to consider how and when the present issue of Currency Notes is to be replaced by the Bank of England issue. There would be some awkwardness in transferring the issue to the Bank of England before the future dimensions of the fiduciary issue have been ascertained. We, therefore, recommend that during the transitional period the issue should remain a Government issue, but that such post-war expansion (if any) as may take place should be covered, not by the investment of the proceeds of the new Notes in Government securities, as at present, but by taking Bank of England Notes from the Bank and holding them in the Currency Note reserve, and that, as and when opportunity arises for providing cover for the existing fiduciary portion of the issue, the same procedure should be followed. The effect of this arrangement would be that the demands for new currency would operate in the normal way to reduce the reserve in the Banking Department at the Bank of England, which would have to be restored by raising money rates and encouraging gold imports.

44. We should thus in course of time have the Currency Note issue covered partly by the £28,500,000 of gold at present held and partly by Bank of England notes covered by gold in the Issue Department of the Bank of England; the balance, forming the fiduciary part of the issue properly so-called, being covered by Government securities as at present. During the transition stage, the greater part at any rate of the demand for gold for export will fall upon the Bank of England, since Currency Notes are not likely to be presented to any large extent for actual payment in gold, but will be paid in by the

banks which collect them to the credit of their accounts with the Bank of England, the balances thereby created being used when necessary to draw gold from the Bank of England for export in the ordinary way. We accordingly think that it will be desirable that Bank of England notes should likewise be substituted in the Currency Note reserve, either immediately after the war or from time to time by instalments, for the £28,500,000 gold now held by that reserve, so that when the time is ripe for the final transfer the whole of the gold reserve may be in the hands of the Bank.

45. When the fiduciary portion of the issue has been reduced to the amount which experience shows to be consistent with the maintenance of a gold reserve of £150,000,000 in the Issue Department of the Bank, the outstanding Currency Notes should be retired and Bank of England notes of low denomination substituted, the Bank of England fiduciary issue being simultaneously increased by an amount equal to the then issue of Currency Notes covered by Government securities. As the Bank of England notes held in the Currency Note reserve and the gold against them would already appear in the Bank return, the only effect on that return of the ultimate merger would be to add to the total Bank of England issue the amount of the fiduciary portion of the Currency Note issue as ultimately ascertained, and to add the same amount of Government securities to the securities in the Issue Department.

15th August, 1918.

TEST QUESTIONS

XVII.—The Services of Banks.

1. What would you say a business man's objects are in keeping a banking account?

2. What is a bank, and what purposes does it serve?

3. Say what benefits a trader will derive from his having an account at a bank, and explain how he would open the account.

4. What is the usual procedure in opening a current account with a bank by: (a) a partnership, (b) a joint-stock company?

5. The directors of Rayon d'Or, Limited, a newly-formed company, desire to open an account with the Loamshire Bank, Limited. Describe the necessary formalities.

6. The following persons, all of whom are strangers to the manager, have applied to an English bank for current accounts—

(a) A, a minor.
(b) B and C, as trustees of an estate.
(c) D, who wants to open an account in the name of a limited company of which he is the secretary.
(d) E, an undischarged bankrupt.

Should the bank accept them as customers and, if so, what formalities would be necessary in the different cases?

7. A trader's bank pass-book shows a balance to his credit of £250 on 31st December, 19... At that date, two cheques for £15 and £22 respectively had not been presented at the bank. A payment into the bank of £52, which the trader had sent by post on the 31st, had not been credited. Prepare a statement reconciling the balance as shown in the pass-book with that shown in the trader's cash book.

8. A B sends to his bank for his pass-book, and, having obtained it, notes the state of his account as shown by the entries in the pass-book. In due course, he returns it to the bank without making objection to any of the entries. Subsequently he discovers that one of the items is debited to him in respect of a cheque presented by his own cashier and paid by the bank. On the cheque the cashier had forged the signature of A B as drawer. Is the bank liable to make good the amount of the cheque, or does the return of the pass-book without comment make A B liable for the loss? Is it necessary that A B should take precautions to prevent such a forgery occurring and, if so, what should he do?

9. Say what you know of the slip-system as it operates between a bank and the bank's customers. Name several particular transactions in which different slips would be used.

10. Name five different items that must be shown separately in filling up a "paying-in slip," and explain why the bank requires separate entry of each of the items.

11. Explain in what particular ways a deposit account at a bank differs from a current account.

12. If you were carrying on business with your current account at the bank overdrawn, how would you proceed in order to check the interest charged on the overdraft?

XVIII.—The Services of Banks (*continued*).

1. What is the difference in form and in effect between the granting of a loan and the granting of an overdraft to a customer by a bank?

2. A banker is a lender of capital. Explain in what ways he fulfils this function, and whose money it is he lends.

3. Explain how the business of a banker compares with that of an ordinary trader in regard to—

(*a*) The subject-matter in which they deal.

(*b*) The capital with which they carry their businesses on.

4. Enumerate four different kinds of security against which a banker would be willing to make advances, and say what steps he would take or what documents he would require executed to complete his security in each case.

5. From a banker's point of view, does a bill of lading afford good security for an advance? If it does, describe any precautions that would be necessary in taking it as security.

6. Would a dock warrant afford good security for a banker's advance? If you think so, describe an imaginary transaction between a trader and his banker showing how a dock warrant would be dealt with for such a purpose.

7. What is the usual method by which a London bank would finance the shipments of an exporter of mixed goods to consignees in South Africa? State briefly what various documents would be handed to the bank and what their uses are.

8. Describe the normal procedure by which a shipment of cotton from the United States to England would be financed, and how the importer would finally pay for the goods.

9. A bill for £410 6s., drawn on 5th April at four months after date, is discounted on 20th May. Find how much the banker's discount comes to at $3\frac{1}{2}$ % per annum.

10. Discuss the relationship that exists between a banker and his customer.

11. Explain and compare the uses of "letters of credit" and "circular notes."

12. What is a "documentary credit"? What advantage does it offer over the ordinary documentary bill?

13. What is meant by "banker's lien"? Does it apply to the following?—

(*a*) A locked box containing jewellery and held for safe custody.

(*b*) Bearer bonds held for safe custody and for collection of interest coupons.

(*c*) Bills of exchange held for collection.

Give reasons for your answers.

14. John Jones has a banking account in his own name. He is agent for Smith, Brown & Co., and he receives cheques made payable in their name. Some of these cheques he pays in to his own account

after having endorsed them with a *per pro.* signature. Would the banker be justified in receiving cheques in this way? Give reasons why he would or would not.

15. How may a banker's authority to pay a cheque be cancelled?

16. What should a banker do when asked to pay—

(*a*) A cheque drawn by a customer who has since died?

(*b*) A cheque with the drawer's signature in this form:

per pro. Robert Smith—Adam Brown,

Adam Brown being now dead?

17. What is a garnishee order, and what steps should a banker take on receipt of such an order relating to a customer who has a credit balance on his current account?

18. On a certain day it came to a banker's knowledge that a customer of his had committed an "act of bankruptcy." Two days afterwards three cheques drawn by the customer were presented to the banker and paid by him. What is the position and responsibility of the banker in regard to these cheques?

XIX.—Growth of English Banking.

1. Give a short account of the Bank of England, naming some of its special features and functions.

2. Give a short account of the "restriction of cash payments," stating what causes brought the restriction about, what means were provided for the making of money payments whilst it remained in force, and what unlooked-for effects followed.

3. Say what you know of the Bank of England's monopoly now and in other times.

4. Say what you can about the beginnings of joint-stock banking in this country.

5. Describe the note issues of the United Kingdom, and the methods adopted for regulating them.

6. State what are the main provisions of the Bank Charter Act of 1844. Give an account of the objects aimed at by the framers of the Act; and say how far, in your opinion, these objects have been attained.

7. Is the English bank note convertible? What provisions are made to ensure its payment in gold?

8. Contrast clearly and concisely the structure of the English banking system to-day with that of a century ago.

9. Explain what part the use of cheques has played in the development of our banking system.

10. What is meant by the "suspension of the Bank Act," and when and how often has this suspension occurred?

11. What is the Bank of England Weekly Return? Give particulars of the information it contains.

12. Explain briefly how the proprietorship of the Bank of England is constituted, and the plan on which its management is organized.

13. Sketch the development of the English joint-stock banks up to the present time.

14. Discuss the effects, beneficial or otherwise, of banking amalgamations in England (*a*) on the banks themselves, (*b*) in relation to the needs of industry.

XX.—Money and Credit.

1. What are the functions that money is required to perform in a modern country?

2. Explain why, in civilized communities, the precious metals have superseded other kinds of money.

3. Name as many as you can of the qualities that ideal money should possess. State why the following materials do or do not possess the attributes of good money—

Corn, bronze, hides, shells, lead, platinum, silver, gold.

4. A person has come into possession of bar gold valued at £20,000. He desires to convert this bullion into money. What courses are open to him, and which would you recommend him to take?

5. What is the equivalent in £ s. d. of one ounce of standard gold; and of what does standard gold consist?

6. When was the gold standard adopted in the monetary system of the United Kingdom; and what led to its adoption?

7. Define the "pound sterling." Explain the meaning of "Mint price of gold."

8. What are "token coins"? In what respects does token money differ from standard money? Is it possible that either kind may be over-issued; and, if so, how can the over-issue be prevented?

9. Indicate in a general way the extent to which paper money is used in our currency system. Explain why it has come to be so used. Distinguish carefully between the qualities and the purposes of a Bank of England note and those of a trader's cheque.

10. In view of the statement that British commerce is conducted on a gold basis, explain how it is that bank notes, Treasury notes, cheques, bills of exchange, and postal and money orders are generally used in place of gold.

11. "Any monetary system must be based on confidence." Examine this statement. Why does everybody place such confidence in gold?

12. Explain the place that credit takes in the organization of modern business.

13. Explain what is meant by the statement that a banker "deals in credit," and what is meant by the phrase "elasticity of the currency."

14. Discuss the possibilities for good and for evil in the use of credit in modern business. Comment on the statement that a financial crisis is simply a general breakdown of credit.

15. Explain the operation of "Gresham's Law." Show how it would apply to a currency of (*a*) one metal, (*b*) two metals, (*c*) metal and paper money mixed.

16. Distinguish between ***depreciation*** and ***debasement*** of money. Explain whether the former would or would not be a necessary result of the latter.

17. What are the dangers and disadvantages of an inconvertible paper currency? Under what conditions would an inconvertible paper currency be satisfactory?

18. What is meant by a "premium on gold"? Has such a premium ever existed in this country, and, if so, under what conditions?

19. "When the value of money increases the prices of commodities fall." Explain this statement, and say exactly on what the value of money depends.

20. What are the most usual causes of a fall in the purchasing power of money? How can changes in the value of money be estimated over appreciable periods of time?

21. What do you understand by the "quantity theory of money"? By what element of modern business conditions is this theory modified, and in what way is it modified thereby?

22. Explain the need for stability of value in money. Indicate the most usual causes of instability, and the results. Can you suggest a remedy for any of these results?

23. Explain carefully (*a*) how money serves as a medium of exchange and a measure of value; or (*b*) how "bad money drives out good."

XXI.—The Money Market.

1. Say where the Money Market is to be found. State who are the several classes of persons that deal in the Money Market. Explain what it is exactly that they buy and sell there; and how the prices at which they deal are expressed.

2. Set out in skeleton form, and with the various items in proper sequence, a balance sheet such as a London joint-stock bank would issue. About how much, do you think, of the funds entrusted to it would the bank keep immediately available for repayment? How and where would the bank keep this part of its funds? Explain briefly, and on broad lines, how it would be likely to dispose of the remainder of its assets.

3. What is meant by the statement that "the Bank of England is the bankers' bank"? Explain concisely the position and functions of the Bank of England in relation to (*a*) the Government, (*b*) the other banks.

4. Describe the functions and operations of the bill broker in the London Money Market.

5. Explain the following terms found in the Money Article of a daily newspaper—

(*a*) Bank rate
(*b*) Market rate
(*c*) Rates for call money
(*d*) Deposit rates

Explain the connection between the Bank rate and the rates of interest.

6. Why is it that the market rate of discount usually differs from the Bank rate? Show how the Bank of England can, to a considerable extent, control the rate charged by other discounting agencies.

7. If large withdrawals are made from the Bank of England of bullion for shipment to New York, what will be the effect on the Money Market here and on that of the United States?

8. State precisely what is meant by "Bank rate." Why does Bank rate vary from time to time? What are the chief causes of the changes, and what are their results?

9. Submit a *pro forma* weekly return of the Bank of England, and explain briefly, item by item, what each entry in the return represents.

10. How would the following events or conditions be reflected in the weekly return of the Bank of England ?

(*a*) The making of advances by the Bank to the Government.
(*b*) Activity in the collection of the taxes.
(*c*) Payment of interest due on War Loan Stock.
(*d*) An abundance of loanable funds in the Money Market.
(*e*) The calling in by the banks of their loans to bill brokers.
(*f*) A drain of gold for exportation.

11. What two parts is the Bank of England weekly return divided into ? Why is it divided so ? How would you ascertain from the return what is the "active note circulation" and what is the Bank's "reserve" ? What does the "Rest" represent ? If the Government were issuing a large loan, what effects would you expect that to have on the return ?

12. Elucidate the following extract from the financial columns of a London daily newspaper, explaining the words printed in italics—

7th September, 1917.

"Changes in this week's *Bank of England Return* are rather difficult to follow. The dividend on the $3\frac{1}{2}$ per cent. War Loan was payable on 1st September, and that helps to explain a reduction of £2,064,053 in the *Public Deposits*; but the *Other Deposits* do not reflect any benefit from this distribution. . . . Notes to the amount of £263,570 have gone into circulation, and the *Reserve* is down £278,500 to £32,068,191, the proportion to the liabilities being 18·9 per cent. against 18·2 last week. . . . The *Rest* has increased by £16,363."

13. Explain the legislation that has for its object the maintenance of the convertibility of the English bank note. Discuss particularly the suitability of that legislation to times of crisis, and how it has been found to work at such times.

14. On how many occasions has the "Bank Act" been suspended ? What is meant by its suspension, and what is the cause ? What steps are taken at such a time to ease the passing of the crisis ?

15. When were currency notes first issued by the Government ? What was the object then in view in issuing the notes ? How did the increase in the issue affect prices afterwards, and why did it have that effect ?

16. What were the chief causes of the breakdown of the foreign exchanges at the commencement of the War ? Why were the banks interested in helping the Stock Exchange to tide over the difficulties arising out of the war ?

17. What is a moratorium ? Why was a moratorium declared at the beginning of the war ?

XXII.—Foreign Exchange.

1. Explain exactly what is meant by the "Mint par of exchange" between this and another country. Given that an English sovereign weighs 7·988 grams, and that 3,100 francs gold contain 900 grams fine, calculate the French Mint par of the sovereign.

2. An English sovereign weighs 123·27 grains and 11 parts in 12 are pure gold. A Dutch 10-gulder piece weighs 103·71 grains and

is nine-tenths fine. Find to the nearest farthing the par exchange value of the 10-gulder piece.

3 The following statement of foreign exchanges is obviously wrong. Point out in what respects it is so—

Paris cheque	20·40	New York	1s. 4½d.
Berlin sight	25·26	Calcutta	4·80

4. At the rates of exchange stated below, what, in the money of each of the countries named, is the equivalent of £250 ?—

France	25·26½	United States	4·86½
Holland	12·3	Denmark	18·25

5. Explain what is meant by "foreign exchange," and state in what ways such exchange is carried out.

6. Describe briefly how international trade dealings are settled by bills of exchange and by other means.

7. Give definitions of the terms: (*a*) gold points; (*b*) Mint par of exchange; (*c*) favourable rate of exchange; as they are used in connection with foreign exchanges.

8. Explain how "imports are paid for by exports." If it is true that our exports are always exceeded in value by our imports, show what other items enter into the settlement of the balance between the two.

9. What is meant by "specie points," and how are they determined ? How would you explain the fact that the rate in Berlin for sight drafts on London on 5th November, 1912, touched 20·54½, although the incoming specie point for London was about 20·52 ?

10. During the year 1915 the current rate of exchange between New York and London fell as low as £1 = $4·47. The par rate is £1 = $4·866. Show clearly why at any time there should be any difference between the two rates, and the ordinary limits of the difference. Explain why at the time named there should have been so wide a difference.

11. What are the uses and limitations of finance bills ? How may such bills be abused ?

12. Explain the functions of the following in connection with the finance of imports and exports—

(*a*) Accepting house
(*b*) Documentary letter of credit
(*c*) Through bill of lading
(*d*) Second of exchange

13. Explain how and why it is that a draft on London is frequently used to settle transactions between two countries neither of which is Great Britain.

14. How is it that "England draws few bills and accepts many" ? Describe fully the function of the "accepting house."

15. Explain how it is that the exchanges between England and most other countries are controlled "from the other side."

16. Suppose a purchase were made in Roubaix of 2,000 metres of fancy dress material at 3·00 francs the metre, and the cost of carriage to Manchester were £5 2s. 9d. altogether. State in English money (*a*) the total cost of the goods at Manchester; (*b*) the price per yard. The difference between a metre and a yard may be taken as 3·4 in., and the rate of exchange as 25·20.

17. Explain the difference between "bank bills" and "trade bills," and their different values in exchange transactions.

18. The two quotations below are extracted from a document issued by a broker and headed "Course of Exchange"—

"(a) Paris 25·11–25·14 (b) New York 4·87–4·88."

Explain what dealings are referred to by the term "Course of Exchange" and where they take place; also what each of the quotations means.

19. Explain precisely what is meant by saying that the Paris rate is "favourable" or "unfavourable" to London. If the English demand for foreign bills increases, the rate of exchange on some countries will rise, and on other countries will fall. Explain fully.

20. The following rules have been enunciated to help the student to understand foreign exchange quotations and dealings in foreign bills—

(a) High rates are for us; low rates against us.

(b) Buy high, sell low; the better the bill, the lower the rate. Explain the rules. Do either or both apply in all cases?

21. Explain carefully what is meant by "arbitrage of exchange."

22. Find the cost of a 3 months' bill of exchange on Paris for 13,500 francs, the sight rate being 25·31, the discount rate 5 % per annum, stamp duty ·05 %.

23. If the London rates of exchange on Paris and Copenhagen are respectively £1 = 25·27½ and £1 = 18·33½, find the arbitrated rate of Paris on Copenhagen through London.

24. How may a foreign exporter safeguard himself against loss through fluctuations in the rates of exchange?

25. How do you account for the difference between the "long" and the "short" foreign exchange rates? If the Bank of England rate is raised by 1 %, whilst that of the Bank of France remains as before, would the rate in Paris for three months' bills on London be effected and, if so, in what ways?

26. How are "Bank rate," the "Bank reserve," and the rates of exchange between London and Continental centres interconnected?

27. How is the price of the Indian rupee kept at or near par? Explain the following—

"In order to obviate the necessity for sending sovereigns in connection with trade remittances, the India Council has raised its weekly sales of drafts to 130 lakhs, and this has done something to lessen the shipment of gold."

28. What are the effects of a depreciated paper currency on the exchanges of the country where such a currency is in use?

29. Explain the following—

(a) Telegraphic transfers
(b) Indirect exchange
(c) *Tel quel* rate
(d) "Pig on pork"

XXIII.—Law of Contract and Agency.

1. Distinguish between "express" contracts and "implied" contracts, and between "simple" and "specialty" contracts.

2. Define the term "consideration." Is consideration always necessary to the validity of a contract?

3. Explain the meaning and application of the following rules—
(a) Consideration need not be adequate; but it must be of some value.
(b) A past consideration is no consideration.
4. Define the term "contract" as used in law. Enumerate the essentials of a valid contract giving a short explanation or illustration of each.
5. What are the legal positions of the parties in each of the following cases—
(a) X offers to sell Y a picture for 100 guineas. Y says he will buy for £100; and X refuses. Y then says that he accepts X's offer to sell at 100 guineas; but X now wants a higher price and still refuses to sell.
(b) Jones writes to Brown, "I will sell you my bicycle for £4 cash." Brown answers on the following day, "I agree to buy your bicycle for £4, if you will give me a lamp with it"; and he encloses the £4 in Treasury notes.
6. In what circumstances can an offer be revoked? What is meant by "keeping an offer open," and how can this legally be done? What is a "firm offer"?
7. In what ways may an offer lapse so that a subsequent acceptance shall not be binding on the proposer?
8. What rules govern the acceptance of an offer in order that a valid contract may be formed between proposer and acceptor?
9. How are the rules of acceptance interpreted in regard to contracts made by post?
10. Distinguish between a contract that is "voidable" and one that is "unenforceable." What is meant by saying that a contract is "void"? Give one example of each of the three kinds.
11. Explain how (a) an infant, (b) a joint-stock company, may be incapacitated in regard to the making of contracts. What is meant by the word "necessaries" in relation to contracts?
12. When will it be held that a term in a contract is unduly in restraint of trade? What will be the effect on the contract?
13. What are the differences in their effects on a contract between "innocent misrepresentation" and "fraud"?
14. Enumerate six different kinds of contract for which writing is necessary, though the contracts need not be made by deed.
15. What contracts are exempt from stamp duty? What is the effect of omission of the stamp on a contract subject to stamp duty?
16. What is an agent? Name some different persons whose business is such that they habitually perform the duties of agent. Show how the relationship of agency may be implied from circumstances.
17. When you deal with a man, who though really an agent is not known by you to be such at the time you make a contract with him, what is your position (a) in regard to the undisclosed principal, (b) in regard to the agent?
18. What are the rights and duties of an agent in regard to his principal? A employs a broker in the tallow trade to purchase a quantity of tallow. The broker executes the order out of tallow that he had previously bought on his own account. When A finds this

out, he refuses to take the tallow. The broker insists on A taking it, as the price charged was the actual market price of the day when the order was given. A admits that it is so; but nevertheless refuses to take delivery. What is the legal position of the broker ?

19. What is the difference between a factor and a broker ?

XXIV.—Law of Sale and Payment of Goods.

1. Give two examples of things that in law are spoken of as "goods," and two examples of things that are not. Distinguish between "real" and "personal" property; and between "choses in action" and "choses in possession."

2. What do you understand by the terms "specific goods" and "future goods"? What is the position of the parties to a contract about specific goods that had ceased to exist when the contract was made ?

3. What are the legal requirements in a contract for the sale of goods of the value of £10 and upwards ? Does such a contract need to be stamped ?

4. The Sale of Goods Act, in Section 4, states that an action for goods of the value of £10 or upwards shall not be enforceable unless, for one thing, "the buyer shall accept part of the goods so sold, and actually receive the same." What is meant here by the word "accept," and what by the word "receive" ?

5. A business man has given an order for £500 worth of goods to be delivered six months hence. He has not obtained the written acceptance of the other party. Explain fully the positions of both parties.

6. It is said that in the making of contracts the general rule of law is *caveat emptor*, which means "let the buyer take care." Comment on this statement, indicating any limitations or exemptions to the applicability of this rule to the sale of goods.

7. Define "condition" and "warranty" with reference to a contract for the sale of goods. Give an example of each; and say what remedy the buyer would have for breach of a warranty, and for breach of a condition.

8. What conditions or warranties as regards title are implied in a contract for the sale of goods ? What conditions are implied in sales by description, or by sample, or both ?

9. (*a*) Collins deals in field-glasses. Mrs. Smith, who knows nothing about them, looks at and buys a pair that Collins recommends. Afterwards she finds that the glasses distort the objects viewed, and she refuses to pay. How does the Sale of Goods Act bear on the case ?

(*b*) A manufacturer advertises "a patent smoke-consuming furnace." B sees the advertisement and sends for one, but discovers, after the furnace is fixed, that it will not consume its own smoke. What can B do ?

10. What exactly would be the result of waiving a breach of condition and treating it as a breach of warranty ?

11. What are the rules as to the time when the property in goods

sold passes to the buyer? Why is it important that the exact time of the passing of the title shall be ascertainable?

12. "No man can sell what he has not got." Explain this rule of law as it applies to the sale of goods, and mention any exceptions to its application.

13. (a) Goods are delivered by A to X "on sale or return." When does the property in the goods pass to X?

(b) C has a haystack in his field and he agrees in writing with D to sell him 5 tons of hay out of the stack, delivery to be made on the following Saturday. During Friday night the haystack is burned down. C demands the price of the 5 tons from D. Will D be obliged to pay?

(c) A lady went to a dentist and ordered a set of artificial teeth. After a number of visits by the lady, the dentist completed the set; but the next day, and before the dentist delivered the teeth, the lady was killed in a railway accident. The dentist thereupon sent in the teeth together with his account; but the lady's executor returned them and refused to pay. Explain to the dentist what his legal position is.

14. What has the Sale of Goods Act to say about the delivery of goods? Whose duty is it to see to the conveyance of the goods—the seller's or the buyer's? What are the rules about delivery of wrong quantities? A buys from B 200 pairs of boots of a particular kind. B sends 250 pairs. What courses are open to A?

15. What are the remedies of (a) the buyer against the seller who fails to give delivery of goods ordered; (b) the seller against the buyer who fails to take delivery or to pay for the goods? What is the rule for assessing damages in (a) and in the first case of (b)?

16. What is meant by "specific performance," and when can specific performance of a contract be enforced?

17. (a) What is meant by "unpaid seller's lien"? If goods are sold for "cash within one month," can the seller exercise his right of lien?

(b) Explain the seller's right of "stoppage in transit," and distinguish between this and a "right of disposal" of goods with the possession of which he has parted.

(c) When has an unpaid seller the right to re-sell goods he has already sold?

18. Is it the creditor's duty to collect payment of money owing to him, or is it the debtor's duty to send it? Show how your answer will apply to a remittance lost in the post.

19. Explain fully what is meant by "currency notes are legal tender for the payment of any amount." State what other forms legal tender may take. What should a debtor do in case of dispute with his creditor about the amount of his debt?

20. How do the Statutes of Limitation affect commercial contracts? In what circumstances do they cease to operate? What rules apply as to appropriation of payments when several amounts are owing by the same debtor to the same creditor?

21. What rules govern a creditor's right to charge interest to a debtor? A tradesman sends out his accounts every half-year, and on his bill-heads the following words are printed: "Five per cent.

interest charged after six months." A customer X incurred a debt of £42 three months before he received the first account from the tradesman. What could the tradesman add for interest in suing X for payment of the £42 two years after the debt was incurred?

XXV.—Carriage by Land and Sea.

1. Write a short sketch of the different means available for the transport of goods in this country. Explain for what kinds of goods, or to what circumstances, each mode of transport is most suitable.

2. Compare the different facilities that exist for the handling of light parcels traffic.

3. Explain in some detail how railway rates are fixed in this country.

4. Describe the function of the Railway Clearing House.

5. How would you distinguish a common carrier from any other? What is a common carrier's liability at Common Law, and what exceptions are there to the general rule?

6 Explain what is meant by (*a*) act of God, (*b*) inherent vice. Is it true that a common carrier can never be made liable for loss caused by the King's enemies?

7. To what carriers, and in respect of what kinds of goods, does the Carriers' Act of 1830 apply? What protection does it give the carrier?

8. How has the common law liability of a railway company as carrier been modified by statute? Can a railway company ever be made liable for loss or damage to goods carried at owner's risk?

9. Explain what difference it makes to send goods at owner's risk by railway instead of at company's risk.

10. What right of security has a common carrier for payment of his services? What is the carrier's position when a consignee fails to take delivery of goods that the carrier has brought him?

11. What are the provisions of the Merchant Shipping Act with regard to a shipowner's liability for loss or damage?

12. How may a shipowner's liability at law be limited? What is a charter party?

13. What warranties are implied in a contract for carriage by sea? Explain what each warranty means.

14. Explain the following—

(*a*) Lay days. (*d*) Port of registry (*f*) Barratry
(*b*) Demurrage (*e*) Jettison (*g*) Perils of the sea
(*c*) A1 at Lloyd's

15. What is a bill of lading? How many copies are usually made out, and why? How is a bill of lading transferred? Do you consider it to be a negotiable instrument or not, and why?

16. A sent goods to a foreign buyer B. He also sent a bill of lading endorsed in blank, together with a bill of exchange for the value of the goods for B's acceptance. B did not accept the draft, but transferred the bill of lading to X, who took it in good faith and for value. The goods were then stopped in transit owing to B becoming bankrupt. Who was entitled to the goods? Could X claim them, or could A get them back?

XXVI.—MARINE AND OTHER INSURANCE.

1. Write a short note explaining how insurance is beneficial in business and how its objects are attained. Mention the more important branches of insurance that are useful in commerce.

2. What kind of business is transacted at Lloyd's? Say what you know about the constitution and the working of Lloyd's.

3. How does Lloyd's differ from an insurance company? Explain how a broker carries through an insurance at Lloyd's.

4. In marine insurance what is meant by a time policy and by a voyage policy, a valued and an unvalued policy, a floating policy and a continuation clause?

5. What are the provisions of the law with regard to the stamping of a marine insurance policy?

6. What risks should a policy of sea insurance cover? What is meant by a "mixed policy" and what by a "warehouse to warehouse clause"?

7. Explain the words "lost or not lost," "at and from," "from the loading thereof," as they are used in a marine insurance policy.

8. When is a contract of marine insurance deemed to be concluded, and what bearing, if any, has the "slip" on the completed contract?

9. What is meant by "insurable interest"? Give examples of what the term would include in a marine insurance. What are the provisions of the law regarding the taking out of a marine policy by a person who has no insurable interest in the subject-matter of the policy?

10. What is meant by saying that a contract of insurance is a contract "of the utmost good faith"? What is the effect of a warranty in an insurance policy? Name the warranties implied in a marine insurance contract, and give one example of an express warranty.

11. What is meant by "unseaworthiness" in a ship? If the vessel were lost by reason of the hull being in unsatisfactory condition at the time of setting sail, or by reason of the ship being undermanned, on whom would the loss fall—the owner or the insurer?

12. What is an "open" policy of marine insurance? Explain in what circumstances it is used, and how the insurance of a given shipment would be effected under it.

13. What is meant by "proximate cause"? Explain in general terms for what the insurer of a marine risk would or would not be held liable.

14. What do you understand by "constructive total loss"? What duty devolves on the assured in such a case? Give an illustration of constructive total loss (*a*) of ship, (*b*) of cargo.

15. Explain carefully the meaning of "general average loss." Give two examples each of "general average sacrifice" and of "general average expenditure." What are the York-Antwerp Rules?

16. Explain exactly what the owner of the lost cargo would receive from the other interests in the following case—

Ship is worth £8,000, freight £2,000, and cargo £10,000 belonging

in equal shares to ten different persons. The goods of one of the cargo owners are jettisoned under a general average sacrifice.

It is stated that in the event of a general average sacrifice "the owner of the property sacrificed neither benefits nor loses." Show how this is so.

17. Define "particular average" and distinguish it from "general average." How would you class the following risks: (*a*) Goods in hold damaged by sea-water; (*b*) propeller damaged by striking floating wreckage; (*c*) sail split by wind; (*d*) masts purposely cut away when ship in danger; (*e*) cargo burnt for fuel when coal has run short.

18. What is the effect of (*a*) the "Memorandum" in a Lloyd's policy, (*b*) an F.P.A. clause in a policy?

19. How is loss on cargo computed for the purpose of particular average? What documents must be produced by the assured when he claims for particular average loss?

20. Explain: (*a*) Survey report; (*b*) salvage charges; (*c*) subrogation; (*d*) P.P.I.; (*e*) F.C. & S.

21. Name four classes of property that a policy of fire insurance does not cover unless they are specially included.

What do you understand by the statement that a policy of insurance is a "contract of indemnity"? What is the effect of an "average clause" in a fire insurance policy?

22. Explain in connection with fire insurance the meanings of (*a*) reinstatement, (*b*) the tariff system.

23. Enumerate the principal provisions of the Workmen's Compensation Act, 1906? What must a claimant prove to show—

(*a*) That the injury alleged brings him within the Act?
(*b*) That he is a workman within the definition of the Act?
(*c*) The amount of the compensation to which he is entitled?

XXVII.—Partnerships and Companies.

1. Define the relation of partnership. Explain how co-owners are not necessarily partners. Of how many members may a firm consist?

2. What are the chief clauses you would recommend for insertion in a partnership deed, and why would you recommend them?

3. What is meant by "goodwill"; and what is the effect of the sale of a partnership business on (1) the right to use the firm-name, (2) the right of a partner in the old firm to carry on similar business?

4. What is a "sleeping partner"? In the absence of any written agreement between an active partner and a dormant partner—

(*a*) Is the active partner entitled to a reasonable salary for managing the business; and

(*b*) Is the dormant partner entitled to interest on his capital before the ascertainment of profits?

5. Apart from specific agreement, (*a*) what will be the extent of the interest of a partner in the profits of the firm; (*b*) what will be his rights in regard to the management of the firm's business?

6. How may a partnership be formed; and in what ways may it be dissolved?

7. When a partnership is dissolved, what rights has a partner in respect of (*a*) the partnership property; (*b*) the goodwill of the

business? What should a retiring partner do in order to evade liability for future debts of the firm?

8. What are the liabilities of the individual partners in a firm to outside persons with whom the firm deals? Explain what you understand by the statement that their liability is "joint and not several."

9. State briefly the extent to which a partner is liable (*a*) on contracts made by a fellow-partner, (*b*) for wrongful acts committed by the latter.

10. Dixon & Jones are in partnership as grocers, each having full power to sign the firm's name and to bind the firm. Whilst Dixon is away from business owing to protracted illness, Jones—

(*a*) Buys an expensive motor-car in the firm's name;

(*b*) Guarantees in the name of the firm a debt of £100 owing by his brother to a money-lender;

(*c*) Takes on behalf of the firm a lease of a new and expensive shop. Explain whether or no Dixon is liable in respect of any of these transactions.

11. Distinguish between a "general partner" and a "limited partner." Contrast and compare a "limited partnership" with a "limited company."

12. By what different processes may a company be formed? Describe the steps necessary for the incorporation of a "registered" company. Explain what is meant by saying that a company is a "body corporate."

13. State precisely what "limited liability" means in connection with companies. In what different ways may this limitation of liability be attained in a registered company? What are the principal commercial advantages and disadvantages of the limited-liability company?

14. Explain carefully and clearly the nature and function of the Memorandum of Association of a company, and what purposes the Articles of Association serve.

15. What is meant by the phrase *ultra vires* as applied to the dealings of a company? Give an example of a transaction that would be *ultra vires* of a company formed to carry on the manufacture of explosives. If a company borrows money "beyond its powers," what is the position of the lender?

16. Enumerate some of the particulars that the prospectus of a company must contain. What liability is incurred by making misstatements in a prospectus, and on what persons will the liability fall?

17. Describe briefly how shares are applied for and allotted in a newly-formed joint-stock company. What are "calls" on shares, and how are they made and paid? When is a newly-formed public company entitled to commence business?

18. Distinguish from each other the authorized, subscribed, paid-up, and reserve capital of a company.

Some companies, such as banks and insurance offices, often have a very large uncalled capital. What are the advantages and disadvantages of this?

19. What different meetings may be held of shareholders of a company? What matters come before the meetings that are held annually and how are votes usually taken?

20 What books is a company required by law to keep? Of what books is the public allowed inspection or extracts, and on what conditions?

21. What do you understand by (a) limited by guarantee, (b) unlimited company? What are (c) Table A, (d) Statutory Report, (e) Annual List and Summary?

22. In what respects does a private differ from a public limited-liability company? Jones & Brown have carried on business in partnership for many years, and they now contemplate turning the business into a private limited company. What do you conceive to be the advantages that this would bring them?

23. Enumerate and explain the more important differences between a company and an ordinary partnership.

24. What is meant by an "act of bankruptcy"? Give a list of such acts.

25. Sketch the procedure by which a person may be made bankrupt. How may a bankrupt obtain his discharge, and in what circumstances will the discharge be refused or suspended?

26. Explain any six of the following terms used in reference to bankruptcy: Petition, receiving order, statement of affairs, public examination, trustee, committee of inspection, dividend, deed of arrangement, composition, fraudulent preference.

27. What property of a bankrupt or goods in his possession are not available for payment of his debts? In the event of bankruptcy of a firm, how are the available assets applied as between the firm's debts and those of the individual partners?

28. Explain the position in bankruptcy of a creditor for rent, and of secured or partly-secured creditors. Give the rules about preferential payments.

29. For what reasons may a company be wound up, and in what different ways may the winding up be carried out?

30. Who are "contributories," and what are the chief rules as to contribution by them? In a winding up, who compiles the lists of contributories and collects the amounts for which they are liable?

XXVIII.—On Stocks and Shares.

1. Define the term "share" as used in connection with the capital of a company. Name the different kinds of shares that are issued by companies, and explain how they differ from each other.

2. Explain how stock differs from shares. What is meant by "conversion" of shares to stock, and what advantages (if any) does conversion give?

3. What is a "debenture"? Explain fully the position of a debenture-holder in a company as compared with the positions of the preference and the ordinary shareholder. What steps can a debenture-holder usually take when his interest has not been paid?

4. What do "cumulative" and "participating" mean when applied to preference shares? What is meant by issuing shares "at a premium"; and what are "founders' shares" and "preferred ordinary stock"?

5. What do you understand "marketable securities" to be? Classify them under three heads to correspond with the different ways in which they pass from sellers to buyers; and give a short description of each class.

6. State exactly what is meant by "transmission" of shares as distinct from "transfer," and explain in what different circumstances transmission takes place.

7. How would you distinguish between "dividend" and "interest" when these terms are used to indicate the return on an investment? In what different ways may dividend or interest be paid? What are the significations of the words "interim" and "final" when used as descriptive of dividend?

8. What is (*a*) a gilt-edged security, (*b*) a share certificate, (*c*) probate, (*d*) letters of administration? What advantages and disadvantages attach to a "bearer security"?

9. Give a brief description of the London Stock Exchange, explaining its constitution, the different kinds of members, the function of the committee; also what kind of business is carried on there, and what is meant by speaking of different markets in the same exchange.

10. Distinguish carefully between the functions of the jobber and the broker on the London Stock Exchange. What is meant by the "turn of the market"? What book entries and what advices are necessary to complete a transaction on the Exchange, and to make it binding on the outside buyer or seller?

11. Describe throughout the procedure to be followed in the purchase of, say, 100 shares in The Rand Mines, Limited, from the placing of the order with a broker, who is a member of the London Stock Exchange, to the entering of the purchaser's name on the company's share register, and the receipt of the share certificate by the broker's client.

12. What is meant by the "Settlement" on the London Stock Exchange? Over how many days does the Settlement extend; and what are the special features of each of the days?

13. Explain clearly and in some detail what are (*a*) a "bull" transaction, (*b*) a "bear" transaction, on the Stock Exchange. What do (*c*) "carry over," (*d*) "contango," (*e*) "backwardation" mean?

14. What is meant, in connection with the London Stock Exchange, by the phrase "financing the account"? Describe clearly the part played therein by the banks. How is it that when "money is dear" contango is high?

15. How and why does the lowering of the Bank rate affect (*a*) British Government stocks, and (*b*) speculative securities?

16. What is meant by "official quotation"? A dealer quotes a broker for Argentine 4 % Loan 1899, 65¼–65½. What does this quotation mean? How are the dealer and the broker respectively remunerated?

17. Explain the terms: Outside broker, Scrip, Option, Put and Call, Trustee Stocks.

18. What do you understand by speculation? How would you distinguish between speculation and investment? Explain your view as to whether speculation is of benefit to the community, or the reverse.

XXIX.—The Industrial Structure.

1. Trace briefly the course, and indicate generally the effects, of the economic changes known as the Industrial Revolution.

2. Give a short history of the rise of the factory system in this country. What is meant in speaking of the "domestic" form of industry?

3. Why has the England of 1800–1870 been called "the workshop of the world"? Mention the principal inventions that made this description possible.

4. Explain exactly what you understand by the production of wealth. How would you justify the statement that the banker or stockbroker is as truly a producer as the carpenter or blacksmith? Give reasons why you do or do not regard as producers a judge of the High Court and a professional violinist.

5. Enumerate the factors of production. Explain fully the use of the term "land" in this connection; and show how it contributes to production in three different ways.

6. Why is the division of labour (*a*) necessary, (*b*) advantageous, in the organization of industry at the present day? What part does the employer take in that organization? Would you put him under the head of labour or of capital, and why?

7. Explain clearly the function and the qualifications of the *entrepreneur* Would you class him with labour, or put him in a class by himself, as a factor of production?

8. What do you understand by the term "capital," and what would you say its functions are?

9. How does the accountant's conception of what capital includes differ from a narrower economic view? In this narrower view, are land and finished goods capital, or not? Is an investment in National War Bonds capital or not? Give reasons.

10. Why must capital be classed as a factor of production? Distinguish between fixed and circulating capital.

11. What are the four divisions into which the occupations of man are commonly classified? Give three examples of each class.

12. Explain how commerce is usually distinguished from industry. Into what sub-classes of occupation would you divide commerce?

13. Under what heading would you classify each of the following occupations?—

(*a*) Banking	(*e*) Fisheries	(*h*) Boot-making
(*b*) Architecture	(*f*) Teaching	(*i*) Engine-driving
(*c*) Coal mining	(*g*) Insurance	(*j*) Agriculture
(*d*) Accountancy		

14. Show how the application of the joint-stock principle provides organized channels for the use of capital that might otherwise lie idle; and how an efficient banking system is of similar benefit to the community.

15. What is meant by "consumer's surplus"? How is it that, when a favourite article of consumption becomes dearer, the average user will go on paying the higher price as long as he possibly can, rather than spend the money on something else?

16. State what you understand by the term "monopoly," and explain the nature and the limits of the monopolist's powers. Give your views as to whether a monopoly price is necessarily higher than the competition price for the same commodity.

17. What have you to say in favour of competition in the production and exchange of commodities; and what, if anything, against it?

18. Do the prices of commodities always correspond to the costs of their production on the one hand, and to the extent of their utility to consumers on the other? Explain why they do, or do not.

19. Discuss the causes and conditions that give rise to combines or trusts, and the objects for which these are created and maintained.

20. Distinguish between a cartel and a trust. Give the chief arguments for and against such forms of commercial combination.

21. Write a brief note on the desirability or the undesirability of municipal and of State ownership or management of commercial undertakings.

22. Take any simple and common commodity with the production of which you have some familiarity. Use this to illustrate how a variety of persons engaged in different occupations take part in the production of the commodity; and how the price charged to the ultimate consumer is almost wholly made up of the wages paid at succeeding stages to the persons whose labour has helped in its production.

23. Explain briefly how, in theory, the wages paid for managing ability should be determined.

24. Examine the statements that "rent is a surplus which does not enter into the costs of production"; that "rent is determined by, and does not determine, the price of the product."

25. What part does capital play in the production of wealth? What share does it take of the wealth it is used to produce? How far is this share part of the necessary costs of production, or how far is it similar in nature to the rent of land?

26. What is included in the term "profits"? If labour is paid for by wages, and the use of land by rent, what exactly is it that is paid for by profits?

27. Explain who are the different sharers in the distribution of wealth, and the work that each class does for the share it takes.

28. How far do the interests of employers and employed coincide, and where do they diverge?

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